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February 1, 2024

# Global Energy Best Ideas

**Our view:** In January, the RBC Global Energy Best Ideas List was flat compared to the iShares S&P Global Energy Sector ETF (IXC) which was down 0.8% and a hybrid benchmark (75% IXC, 25% JXI – iShares Global Utilities ETF) that was down 1.6% on a sequential basis. Since its inception in February 2013, the RBC Global Energy Best Ideas List is up 157.4% compared to the S&P Global Energy Sector ETF up 29.2%.

| Total Return Comparison | January | YTD | Inception |
|---|---|---|---|
| iShares S&P Global Energy (IXC) | -0.8% | -0.8% | 29.2% |
| Hybrid Benchmark (75% IXC, 25% JXI) | -1.6% | -1.6% | 42.4% |
| RBC Global Energy Best Ideas | 0.0% | 0.0% | 157.4% |

**January List Changes:**
**Additions:** CVE-CA, EFX-CA, REP-ES
**Removals:** NA

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 | £78,957 | 12/7/23 | 466p | 462p | 600p |
| Repsol | REP-ES | OP | Borkhataria | € 16,727 | 2/1/24 | € 13.74 | € 13.74 | € 17.00 |
| Cenovus Energy | CVE-CA | OP | Pardy | C$41,306 | 2/1/24 | C$21.78 | C$21.78 | C$28.00 |
| Suncor Energy | SU-CA | OP | Pardy | C$57,654 | 3/1/23 | C$45.86 | C$44.52 | C$51.00 |
| **Exploration & Production** | | | | | | | | |
| Obsidian Energy | OBE-CA | OP | Davis | C$725 | 10/2/23 | C$11.18 | C$9.17 | C$14.00 |
| Topaz Energy | TPZ-CA | OP | Davis | C$2,809 | 11/1/22 | C$23.04 | C$19.44 | C$25.00 |
| Diamondback Energy | FANG-US | OP | Hanold | $27,517 | 12/7/23 | $146.48 | $153.74 | $180.00 |
| Permian Resources Corporation | PR-US | OP | Hanold | $6,866 | 12/7/22 | $8.99 | $13.48 | $17.00 |
| ARC Resources | ARX-CA | OP | Harvey | C$12,483 | 5/1/21 | C$7.73 | C$20.88 | C$26.00 |
| Tourmaline Oil | TOU-CA | OP | Harvey | C$19,809 | 1/1/20 | C$15.08 | C$58.13 | C$80.00 |
| Canadian Natural Resources | CNQ-CA | OP | Pardy | C$93,131 | 4/1/22 | C$77.41 | C$86.04 | C$94.00 |
| MEG Energy | MEG-CA | OP | Pardy | C$6,993 | 12/7/23 | C$23.66 | C$25.42 | C$31.00 |
| Santos Limited | STO-AU | OP | Ramsay | A$25,495 | 6/1/19 | A$6.74 | A$7.85 | A$8.25 |
| **Oilfield Services** | | | | | | | | |
| Enerflex Ltd. | EFX-CA | OP | Mackey | C$859 | 2/1/24 | C$6.93 | C$6.93 | C$12.00 |
| Pason Systems Inc. | PSI-CA | OP | Mackey | C$1,173 | 12/7/23 | C$14.87 | C$14.74 | C$19.00 |
| SLB | SLB-US | OP | Mackey | $69,514 | 1/4/22 | $29.95 | $48.70 | $66.00 |
| Aker Solutions | AKSO-NO | OP | McCulloch | NOK 19,283 | 10/2/23 | NOK 43.20 | NOK 39.18 | NOK 52.00 |
| **Midstream** | | | | | | | | |
| AltaGas Ltd. | ALA-CA | OP | Kwan | C$7,877 | 8/1/23 | C$26.03 | C$27.95 | C$32.00 |
| Pembina Pipeline Corporation | PPL-CA | OP | Kwan | C$25,441 | 9/1/22 | C$46.38 | C$46.31 | C$58.00 |
| Archrock Inc. | AROC-US | OP | Scotto | $2,550 | 12/7/23 | $14.24 | $16.34 | $18.00 |
| Energy Transfer LP | ET-US | OP | Scotto | $48,085 | 2/1/22 | $9.57 | $14.30 | $19.00 |
| **Utilities, Refiners, Infrastructure & Renewables** | | | | | | | | |
| Neste Oyj | NESTE-FI | OP | Kerouredan | € 24,653 | 11/1/23 | € 31.71 | € 32.05 | € 48.00 |
| Northland Power | NPI-CA | OP | Ng | C$6,279 | 12/7/23 | C$22.82 | C$24.74 | C$28.00 |
| Superior Plus | SPB-CA | OP | Ng | C$2,292 | 12/7/22 | C$9.82 | C$9.22 | C$15.00 |
| PG&E Corporation | PCG-US | OP | Tucker | $35,992 | 9/1/22 | $12.33 | $16.87 | $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


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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 23**

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

Exhibit 1 - This Month's Additions

| | |
|---|---|
| **Cenovus Energy (CVE)**<br>Greg Pardy, Head of Global Energy Research<br>(416) 842-7848<br>greg.pardy@rbccm.com | • We are adding CVE to the Energy Best Ideas list given the degree to which the stock has underperformed on a relative basis and based upon our candid conversations with Cenovus' President & CEO Jon McKenzie, which reinforced our confidence that the company's operating and financial momentum will improve as 2024 unfolds, opening the door to relative share price appreciation. |
| **Enerflex Ltd. (EFX)**<br>Keith Mackey, Analyst<br>(403) 299-6958<br>keith.mackey@rbccm.com | • We are adding EFX to the Energy Best Ideas list. We believe that EFX is positioned for valuation accretion given the stock underperformance in 2023 relative to its peers, with the potential for FCF inflection in FY24 on strong fundamentals and merger integration progress. |
| **Repsol (REP)**<br>Biraj Borkhataria, Global Head of Energy Transition Research<br>(+44) 20-7029-7556<br>biraj.borkhataria@rbccm.com | • We are adding REP to the Energy Best Ideas list given our belief that the risk-reward for the stock has turned more positive recently. With refining margins remaining resilient, the current environment suggests limited downside to consensus numbers for the year, in contrast to our expectations of downward revisions for most companies in our coverage universe in 2024 as analysts reflect lower oil and gas prices, as well as weak chemicals margins. This, coupled with relative underperformance over the last 12 months, suggests an attractive set-up from here on, in our view. |

# Investment Highlights

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

**Aker Solutions (AKSO)**
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**Rating**: Outperform
**Price target:** NOK 52.00

- **Completing Subsea JV Deal.** Aker Solutions, SLB and Subsea 7 are due to complete a Subsea Joint Venture deal which will combine SLB and Aker Solutions subsea production systems businesses – as detailed in our note. The companies have not provided additional guidance since the deal was announced in August 2022, and given the growth in the offshore market since this time, we think it is likely that the guidance could be increased on completion. Aker Solutions' Subsea business quarterly revenues have increased ~55% with its margin increasing 270bps since 3Q22. Similarly, SLB's Productions Systems revenues have increased 8% since 3Q22 and contributed to strong margin growth. In a blue-sky valuation, based on $4bn of revenues and higher margins of ~17% from FY23, we estimate the JV value could be in excess of $6.5bn.
- **Solid remaining order book.** Aker Solutions has a remaining order book of ~$7.7bn which, although lower margin than its subsea work, provides strong cashflow and earnings visibility, and should be trading higher than the implied <2x FY24E EBITDA, in our view.
- **Capacity for special dividend.** On completion, Aker Solutions expects to receive $153m in cash and SLB shares worth $306.5m (which have a ~180-day lock-up period). While no commitment has been made on the use of these proceeds, we think the company has a strong track record for maintaining a prudent balance sheet, paying dividends to shareholders and continues to emphasise in recent presentations that it is committed to "returning excess cash to shareholders". We estimate that the payout could be $400m over the next two years in addition to regular dividends, while maintaining capacity for deals on its balance sheet.

**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.** With the improved line of sight to the completion of the Mountain Valley Pipeline (MVP) and management noting that it is a noncore asset sale candidate, we have a greater confidence in the company's ability to get to its 4.5x debt/EBITDA target in relatively short order. More importantly, we believe leverage needs to be closer to 4.0x debt/EBITDA and we are encouraged by statements made by the new CEO on the Q2/23 conference call, which opened the door to lower leverage.

**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 $0.76/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.
- **Sanctioning of Attachie.** Over the past year, ARX announced the formal sanctioning of the Attachie project, which is a $740 million project expected to deliver roughly 40,000 boe/d (60% liquids) and on stream late in 2024. The $740 million price tag includes the drilling of 39 initial wells, an electrified 90 mmcf/d gas plant, 25,000 bbl/d of liquids handling plus associated infrastructure. Roughly $250-300 million of the total investment will be focused on 2023, with the balance in 2024. 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 at 5.1x 2024E EV/DACF, below our North American Senior E&P peers at 5.4x. 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/$1.3 billion in 2024/25E) and commitment to return capital to shareholders.

**Archrock Inc. (AROC)**
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**Rating**: Outperform
**Price target:** USD 18.00

- **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**. AROC utilizes both dividends and share repurchases to distribute capital to shareholders. AROC previously laid out a 2024 framework that includes 5% dividend growth with >2x coverage, lower year-over-year capex, and balance sheet improvements with a target leverage of 3.0-3.5x (~3.8x at 9/30/23), which should provide greater financial flexibility for more share buybacks ($43.5MM remaining buyback capacity under its repurchase program as of 9/30/23).

**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.
- **Shareholder returns remain attractive.** BP intends to return at least 60% of its surplus free cash flow to shareholders via buybacks over time, in addition to its dividend. We see BP returning ~10% to shareholders in 2024 via dividends and buybacks.
- **Trading remains a differentiator.** While trading earnings have come in below expectations in recent quarters, our 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.
- **Catalysts on the horizon.** We see former CFO Murray Auchincloss' recent confirmation as permanent CEO as an important symbolic step to show that the ship is steady. Elsewhere, we see the credit rating upgrade that BP is seeking as a when, not if, for the company and having crunched the numbers, expect this to be an early 2024 event (note that Fitch recently upgraded BP's rating). With these catalysts, we believe risk-reward is set up more positively for BP and with sentiment having turned much more negative recently, see an attractive opportunity for investors.
- **Attractive relative valuation, in our view.** Following weak 2Q and 3Q results, we've seen limited downgrades to consensus estimates, and with the shares underperforming peers, BP trades on EV/DACF multiple discount relative to both European and global majors in 2024-25E, for a higher FCF yield.

**Canadian Natural Resources (CNQ)**
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**Rating**: Outperform
**Price target:** CAD 94.00

- **Globally distinguished**. We believe Canadian Natural Resources' management committee structure and shareholder alignment are unique factors which distinguish the company globally. CNQ's long-life, low-decline portfolio—anchored by low sustaining capital—affords the company with superior free cash flow generation throughout the cycle.
- **Impressive shareholder returns**. CNQ's shareholder returns policy revolves around a net debt floor of $10 billion. The company is currently allocating 50% of its free cash flow (after dividends and base capital) towards share repurchases, with the balance (less strategic growth capital/acquisitions) earmarked for debt reduction. Once CNQ's net debt falls to $10 billion the company will allocate 100% of its free cash flow as incremental returns to shareholders. 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). To the extent that the company's net debt rises above $10 billion, it would revert to its prevailing 50/50 policy. 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 $4.00 per share.
- **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 freshwater usage intensity and mining fresh river water usage intensity by 2026 (from a 2017 baseline).

**Cenovus Energy (CVE)**
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**Rating**: Outperform
**Price target:** CAD 28.00

- **Unloved and oversold, in our view.** Our constructive stance towards Cenovus reflects its capable leadership team, strengthened balance sheet, capital discipline and rising shareholder returns on the horizon. In our minds, 2024 is all about execution and delivery for Cenovus—which should manifest in relative share price appreciation.
- **Key Catalyst—Net Debt Floor.** Cenovus' $4 billion net debt floor has proven frustratingly elusive, but its year-end 2023 results should recalibrate the timing of hitting this target. And we believe achievement of this net debt floor is a priority for the company's leadership team. As per our previous discussion with the company, Cenovus expects to achieve its $4 billion net debt floor sometime in the second half of 2024 under prevailing commodity prices—opening the door to 100% payout of excess quarterly free cash flow.
- **Overlooked TMX Beneficiary.** Cenovus' operating cash flow is heavily impacted by its upstream segment given its extensive bitumen footprint and the fact that its diluted bitumen production of roughly 850,000 bbl/d is double its heavy oil processing capacity of 412,500 bbl/d. As such, we estimate every US$5 tightening of the WCS-WTI spread impacts Cenovus' 2024 annual cash flow generation by approximately 4%. Accordingly, the 590,000 bbl/d Trans Mountain Pipeline Expansion—which is set to move into service soon—is beneficial for Cenovus, which also has 145,000 bbl/d of committed capacity on the line.

| | |
|---|---|
| **Diamondback Energy (FANG)**<br>Scott Hanold, Analyst<br>(512) 708-6354<br>scott.hanold@rbccm.com<br><br>**Rating**: Outperform<br>**Price target:** USD 180.00 | • **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, in our view. We estimate a 4-5 year inventory at current capital efficiency and well productivity, but there is an overall inventory that exceeds 15 years.<br>• 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.<br>• **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)**<br>Keith Mackey, Analyst<br>(403) 299-6958<br>keith.mackey@rbccm.com<br><br>**Rating**: Outperform<br>**Price target:** CAD 12.00 | • **Improving FCF outlook.** We see FY24 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 20% FCF yield (coverage group avg. of 13%).<br>• **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, with integration costs expected 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.<br>• **Discounted valuation.** Enerflex is trading at 2024/25E EV/EBITDA multiples of 3.8x and 3.5x, 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.<br>• 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 ~13% based on our 2025 estimates. ET has used its excess cash mostly to reduce its leverage (leverage of ~3.6x based on our calculations at 9/30/23 vs its targeted 4.0x-4.5x). ET will 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 31.00

- **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 will unlock the next wave of shareholder returns, which will 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 will 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 will 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.

**Neste Oyj (NESTE FI)**
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**Rating**: Outperform
**Price target:** EUR 48.00

- **Attractive valuation and superior positioning.** Neste trades below 11x FY24E PE, towards the bottom end of its historical average, which looks undemanding to us given Neste's potential to generate significant premiums on a very favourable SAF offtake market over the next 18 months. Neste’s competitive advantage is supported by production capacity in place and a moat in the feedstock space, which we believe should command a premium.
- Looking ahead we see a few catalysts: **1) Dutch mandate (update expected by year end):** given the mandate increase proposal applies to 2024, hopes are for an update by year end, potentially alongside general elections next month. As a reminder, Neste sees +500kt of additional RD demand to the market if the proposal is adopted. **2) Dividend policy (update likely on 4Q23).** On the 3Q23 call Neste CFO provided additional details to his yet-to-be disclosed competitive dividend policy, including on the comp side. As has been the case in the past, dividend policy updates could be announced on 4Q results (8th Feb). **3) SAF ramp and margin accretion (update expected 4Q23 / 1Q24 pre-close);** if SAF is highly margin-accretive (which is our view), this should be clearly reflected in a stronger guidance for the quarter ahead. With SAF sales now ramping up end 1Q24 at the earliest, we now expect this to be reflected in 4Q results 8th Feb at the earliest, or pre-close 1Q24 call end March.

**Northland Power (NPI)**
Nelson Ng, Analyst
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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 the management's 2023 EBITDA and FCF guidance, 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 2023, offshore wind will contribute ~50% of Northland Power's EBITDA, 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.

**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 500 sections in the fairway and has identified 309/560 Bluesky/Clearwater locations, of which 129/70 locations will be drilled by 2026, reiterating the long-life nature of Obsidian's Peace River assets. 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, renegotiated leases, and streamlining operations to improve corporate sustainability. Obsidian's operations are mostly mature and come with generally 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 is expected to improve capital efficiencies.
- **Healthy balance sheet and RoC with significant tax pool balance.** We forecast Obsidian will carry $277/$235 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 $32 million in share buybacks in 2024E. On top of this, we note that Obsidian holds roughly $2.4 billion in tax pools as at Q3/23, with $1.9 billion being immediately deductible and offering 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 3Q23, the company had $178MM ($84MM 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 23% margin of revenue and an 8% FCF yield.
- **Favourable relative valuation.** Pason historically has traded at a 3.4x EV/EBITDA premium to land drilling peers (1.2x-1.4x current). We continue to see value in Pason shares as the company demonstrates strong margins, free cash flow, and financial returns.

**Pembina Pipeline Corporation (PPL)**
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**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, the company prioritized share buybacks with the strategy going forward focused on creating balance sheet optionality by reducing leverage. Lower debt levels should position the company to pursue a wide range of growth initiatives on an equity self-funded basis.
- **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.

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| **Permian Resources (PR)**<br>Scott Hanold, Analyst<br>(512) 708-6354<br>scott.hanold@rbccm.com<br><br>**Rating**: Outperform<br>**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.<br>• **Strong free cash flow.** We forecast that PR is capable of generating peer-leading FCF that can support a robust shareholder return strategy.<br>• **Balance sheet strength and shareholder returns**. We believe 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)**<br>Shelby G. Tucker, Analyst<br>(212) 428-6462<br>shelby.tucker@rbccm.com<br><br>**Rating**: Outperform<br>**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.<br>• **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.<br>• **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.<br>• **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. |

**Repsol (REP)**

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**Rating**: Outperform

**Price target:** EUR 17.00

- **Attractive 2024 set-up.** While we expect downward revisions for most companies in our coverage universe amid lower oil and gas prices, as well as weak chemicals margins, for Repsol, refining margins remaining resilient and US gas rebounding from the lows suggests limited downside to consensus numbers for the year. This, coupled with relative underperformance over the last 12 months, suggests the risk-reward has turned more positive, in our view.
- **Leverage to refining.** For European refiners in general, falling carbon prices (€61/t vs €80-95/t last year) as well as lower gas prices both serve as a tailwind relative to other regions. While Repsol is not geared to European gas from a feedstock perspective (contracts are mostly linked in Henry Hub), it should benefit from lower carbon prices. Consensus refining margins are at $6.9/bbl in 2024 and we believe spot margins for Repsol are closer to $10/bbl. The longer margins stay resilient, the greater the chance of consensus upgrades.
- **Commitment to competitive shareholder returns.** Repsol's total shareholder returns screen at the top of the peer group amid an attractive dividend yield as well as the company's commitment to return excess cash to shareholders via buybacks over time. This should help support the share price, in our view.
- **Growing low-carbon business.** Much of Repsol's growth capex is headed towards its low-carbon ambitions, and the company expects to grow it over time. Despite selling down a partial stake to re-coup invested capital, we believe this division is likely to be a driver of opportunistic growth going forward.

**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 will reduce its project stake to 39.9%. Santos has further granted Kumul a call 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 $CO_2$ 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 $CO_2$) 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 buybacks 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 66.00

- **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 51.00

- **New leadership in place.** On February 21, Suncor announced Rich Kruger as its new President & CEO. The new leadership change became effective as of April 3, 2023. We know Rich well from his days at Imperial Oil and we are pleased that Kris Smith will remain in a leadership role with Suncor as he plans to take the reins as CFO—laying a clear CEO succession path in our minds. We are also pleased that former CFO, Alister Cowan, remained with the company to provide advisory services until the end of 2023 to ensure a smooth transition.
- **Fort Hills Acquisition.** Suncor Energy's recent 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. Suncor could be picking up a maximum of $500 million of tax pools with the transaction, which adds 61,000 bbl/d of bitumen production capacity and 675 million barrels of proved + probable (2P) reserves to its existing oil sands portfolio.
- **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 $13.9 billion (including lease liabilities of $3.2 billion) as of September 30.
- **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 exceeded management expectations in H1/23, leading to an increase in 2023 guidance. Please click here for our note covering the transaction.
- **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). Management expects to deploy $120 million into capex at Certarus in 2023, and we view 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, and management expects tailwinds will drive EBITDA closer to $285k/MSU in 2023. We estimate that the cost of a 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's 2024E/25E production profile remains 69%/68% gas-weighted. Topaz is supported by some of the top operators in the WCSB. Notably, Tourmaline Oil has outlined a 5-year plan in NEBC Montney that is estimated to increase Topaz's regional volumes from 6,800 boe/d in 2022 to over 10,000 boe/d by 2028 (13% 8-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 anticipates averaging 2,850 bbl/d of total Clearwater production in 2023, exceeding 3,000 bbl/d by 2024E. The royalty business model is also 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 (~6.5% dividend yield) with Q2/23 results following its Wembley gas plant acquisition; we estimate a 61%/53% effective payout ratio in 2024E/25E. The company balances its RoC program with continued deleveraging efforts, with our forecasts suggesting roughly $35 million in post-dividend FCF from Q4/23 through Q4/25E.

**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. Last 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$13.77/mmbtu, which equates to annual cash flow (marketing revenue) of ~$440 million from the contract – meaningful considering the contract represents only 6% of TOU's 2024E natural 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 now calls for two base dividend increases in 2024 (to $1.20/share annualized) plus an additional $2.00/sh in special dividends. On current strip pricing, TOU is expected to generate $1.0-1.5 billion of FCF in 2024 (or about $1.8 billion at the RBC Deck).

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- There is no limit to the number of names included in the RBC Capital Markets Global Energy Best Ideas List.
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- Names added to the list will remain on the list for at least one full month, i.e., there will be no mid-month additions/deletions. If we discontinue research coverage of a company included on the RBC Global Energy Best Ideas List, the stock will be removed from the list as of the next monthly publication.
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- We will use the most recent closing price prior to the list being published, unless noted otherwise, as the price used for performance calculations. Therefore, any additions to or deletions from the list are recorded as have being made at their most recent closing price.
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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.
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**Note:** Total return data for the list as well as relevant indices are from Bloomberg and FactSet.

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|---|---|---|---|---|
| **Rating** | **Count** | **Percent** | **Count** | **Percent** |
| **BUY [Outperform]** | **829** | **57.17** | **253** | **30.52** |
| **HOLD [Sector Perform]** | **575** | **39.66** | **154** | **26.78** |
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