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Independent Capital Group

TABLE OF CONTENTS

Conference Highlights	3 - 6
BP	7
Brookfield Renewable Partners	8
Cameco Corp.	9 - 10
Chord Energy Corp.	11 - 12
Comstock Resources	13 - 14
Diamondback Energy	15 - 16
Murphy Oil	17 - 18
Suncor Energy	19
TotalEnergies	20 - 22
Transalta Corp.	23 - 24
Vermilion Energy	25 - 26
Contact	27
Appendix	28

CONFERENCE HIGHLIGHTS

- The IEA observes that global oil markets are relatively well supplied, with demand growth slowing while supply increases from the Americas. Nevertheless, Scotiabank, along with the EIA, OPEC, and most conference participants, anticipate a higher increase in demand of over 1mboe/d this year, mainly propelled by India.

- On the supply side, most participants foresee lower US production growth for both this year and the next. Scotiabank projects a growth rate of 0.6mboe/d, notably less than the near 1.0mboe/d that surprised the oil market in 2023. Apart from the US, additional output is expected primarily from Argentina, Brazil, Canada, Guyana, as well as Iran and Venezuela within OPEC.

- Looking further into the future regarding oil and natural gas demand projections, it's crucial to understand that the frequently discussed IEA peak projections by 2030 have often been fundamentally misunderstood. The peak is followed by a prolonged period of decline. Indeed, both crude oil and natural gas consumption, yet to peak, are projected to be nearly as high as >95% of the 2030 levels by 2050, based on the Stated Policies Scenario of the IEA.

- Severing modern civilization's reliance on fossil fuels is a desirable long-term goal but one that, for many reasons, cannot be accomplished rapidly or inexpensively.

- Participants view natural gas as crucial to the energy transition and a substitute for coal as prices decrease. Especially LNG demand is forecasted to grow at ~4% CAGR during 2023-2030.

- Significant amount of investors focus on natural gas markets, due to current price weakness. Some analysts and participants anticipate that the market will achieve balance in 2025 but may shift into a oversupplied market in 2026, persisting until the end of the decade.

- Despite near-term price weakness, LNG demand is currently robust, particularly in China, which has been the largest importer over the past two months. Asian LNG demand is on the rise, and price softness is expected to continue stimulating demand, offering support to prices according to the Oil & Gas Majors.

- Asia remains the primary source of LNG demand growth, accounting for just over 50% of demand growth in the last decade and projected to contribute 70% of the growth between 2022 and 2030.

CONFERENCE HIGHLIGHTS

- LNG project start-ups are expected to reach record levels in 2025-2027 (182mt of which US 79mt and Qatar 48mt). The US is the main driver of the imminent LNG supply wave, with its LNG capacity expected to increase from ~90mtpa in 2023 to around 228mtpa by 2030, capturing a market share of 31% and solidifying the US as the largest global LNG producer.

- North America's LNG capacity is projected to grow from 91mtpa in 2023 to 280mtpa by 2030.

- For US and Canadian natural gas companies, the LNG build-out is anticipated to create sustained demand, likely supporting natural gas prices, as already indicated in the future curve.

- There is growing dissatisfaction with the energy sector's weight in the S&P, which has decreased to 3.7% from 5% a year ago and was 10-13% a decade ago. During this time, US oil production more than doubled to 13.2mboe/d, making it the world's number one producer today.

- The industry is actively seeking to regain the interest of "general" investors.

- It's pretty clear that every oil and gas company is dedicated to redirecting their profits from surging energy prices back to investors through increased share buybacks and dividends, a trend that is steadily gaining traction.

- Oil and gas companies appear determined to adhere to their "capital discipline" mantra in 2024, with only a handful of producers showing a willingness to expand volumes beyond modest single-digit growth rates. Instead, companies are focusing on inorganic growth strategies, aiming to attain the scale necessary for long-term competitiveness. This suggests that more significant deals may be on the horizon.

- M&A activity is one of the prominent themes of the conference. Consolidation in the US shale industry has propelled the value of global M&A in the oil and gas exploration sector to its highest level in seven years in the first quarter. Deals worth over $55bn were announced in the first two months of 2024.

CONFERENCE HIGHLIGHTS

- Economies of scale are a well-known driver of M&A in the natural resource industry, enabling firms to reduce costs and increase efficiency through resource and operational consolidation. Additionally, there has been a visible valuation premium of large-cap companies compared to the broader space in recent years. The market has placed a premium on scale, enhancing both operational resilience and trading liquidity, which is seen as more stable regardless of the market environment.

- There's a sense that the market's approach to the energy transition is becoming more nuanced and informed, particularly with major oil and gas firms now commonly referred to as integrated energy companies. Many observers believe that energy companies play a pivotal role in the energy transition, given their deep understanding of energy systems and their associated operational, geological, and geopolitical challenges, which are often overlooked.

- Energy demand, especially electricity, is expected to surge over the next five years, driven by data centers, AI, EVs, and the electrification of industrial processes.

- Companies needing to build data centers have often committed to 100% clean energy targets and are among the largest buyers of green power globally. Notably, companies such as Amazon, Meta, Google, and Microsoft have increased their energy consumption by 50% annually over the past few years, with AI acting as a multiplier on energy demand. These companies have signed over 40 GW of renewables PPAs (long-term power purchase agreements).

- S&P Global Market Intelligence estimates that technology and web service companies accounted for ~60% of contracted renewable capacity in the United States by corporations.

- Global energy demand from data centers is projected to reach ~10% of total electricity demand by 2030, up from about 2% today. To contextualize this increase in global demand, by 2030, new capacity equivalent to the entire U.S. grid will need to be constructed.

- This significant increase in energy demand puts pressure on energy grids worldwide, prompting some regulators to require data centers to provide a (clean) power solution as a prerequisite for receiving their permits.

CONFERENCE HIGHLIGHTS

- The drive for decarbonization, electrification, growing policy support for clean energy, and positive public opinion continue to propel momentum in the nuclear energy sector.
- Most participants see nuclear energy as part of the solution in addressing the global challenges to reduce the use of fossil fuels, enhance energy security and boost economic development.
- Notably, during COP 28, the IAEA observed that 22 countries aimed to triple their nuclear energy capacity by 2050. Additionally, the IEA projects that under a net-zero scenario, nuclear capacity could more than double by 2050.

bp

BP (BP/ LN), OIL & GAS INTEGRATED

MARKET CAP $ 103 BILLION

BP is one of the largest integrated oil and gas companies in the world, with well-established operations in 62 countries across Europe, North and South America, Australasia, Asia, and Africa. BP produces, refines, and markets energy products across the globe. BP is focused on transforming from an international oil company to an integrated energy company.

HIGHLIGHTS

- BP will likely continue to further shift its focus back to the higher-return traditional oil and gas business. New CEO Murray Auchincloss's focus is on integration, improving efficiency and returns.
- In 2025, BP targets a production of 2.3mboe/d, maintaining consistency with 2023 figures. However, the production composition will tilt towards higher-margin barrels as the company executes six major oil-weighted projects. Management anticipates a margin increase of 15-20% from these new barrels compared to existing production.
- BP has revised its capital spending plan for 2024 and 2025, narrowing the range from the previously communicated $14-$18bn to approximately $16bn.
- Following four years of intensive M&A activities, BP is pausing its M&A endeavours. However, various media reports suggest BP could be a potential M&A target.
- By the end of 2023, BP achieved $17.8bn in realized disposals, indicating progress towards its $25bn target by 2025.
- As announced during the 4Q results, BP is committed to at least $14bn in share buybacks over the next two years or at least 80% of surplus cash flow to shareholders, compared to the previous 60%. This translates to approximately 14% of the current market capitalization, potentially reducing the share count by 30% from 2021 levels.
- Management is confident to deliver $46-49bn EBITDA by 2025 (Brent $70/bl). Guidance for 2030 rises further to $53-58bn. However, BP still has to convince the market that it can deliver with Bloomberg consensus 13% below the midpoint for 2025, growing to a 20% shortfall vs guidance in 2030.
- The Transition Growth Engines business is expected to generate an additional $2.5bn in EBITDA compared to the 2023 baseline of ~$1bn, with contributions of ~$2bn from bioenergy and over $1.5bn from Convenience and EV Charging.

BROOKFIELD RENEWABLE PARTNERS (BEP CN), POWER

MARKET CAP $ 15 BILLION

Brookfield Renewable Partners LP operates as an investment company. The company focuses on investment in renewable power and transition sectors. The diversified portfolio consists of hydroelectric, wind, solar, distributed energy and sustainable solutions across five continents.

HIGHLIGHTS

- Diversified Technology: 49% Hydro, 23% Wind, 16% Utility Solar, 12% Distributed Energy & Sustainable Solutions

- Growing global footprint: 58% North America, 20% South America, 20% Europe, 2% Asia

- Broofkield Renewable Partners (BEP) is confident in its ability to achieve a Fund from Operations (FFO) per unit growth of over 10% in 2024 and beyond. This optimism stems from the recent stabilization of interest rates, which is anticipated to spur increased transaction activity in both new investments and asset monetization. Notably, the M&A market has witnessed an influx of participants. Capital recycling opportunities are emphasized, primarily in North America and Western Europe, according to management observations.

- Development pipeline is now ~155GW vs. ~143GW or +8% YoY. The company increased its capital deployment targets to $1.4-1.6bn+ annually from $1.2-1.4bn.

- Management noted the continued improvement of basis risk in the offshore wind industry. Basis risk is defined as the risk of changing market conditions between the time large initial investments are made in a project and the time construction begins.

- BEP thinks that renewable energy demand is expected to be driven by data centers in the coming years, creating a corporate pull/demand for clean generation rather than a government push/policies. Companies are engaging with BEP earlier in the process to develop solutions. This helps de-risk both the company's power needs, while de-risking BEP's pipeline.

- Notably, the majority of data center demand growth is expected in the U.S., where more than half of Brookfield's development pipeline is situated. Larger data companies express a preference for collaborating with substantial developers capable of providing comprehensive solutions across various geographies and technologies to match their continuous 24/7 demand.

Cameco

PORTFOLIO COMPANY (IMC & NCC)*

CAMECO CORP. (CCO CN), URANIUM

MARKET CAP $ 18 BILLION

Cameco is one of the world's largest producers of uranium. It operates two mines in Canada and has interests in Inkai (Kazakhstan). Cameco owns uranium refining and conversion facilities in Canada and recently purchased 49% of Westinghouse as part of its downstream expansion strategy.

HIGHLIGHTS

- Management focused on the growing acceptance of nuclear power as part of the energy transition. Emergence of new technologies such as Small Modular Reactors (SMR) adds optimism, with security of supply concerns adding further momentum in the market.

- According to Cameco, the projected uncovered uranium requirements are expected to reach accumulated ~2.2bn lbs uranium by 2040.

- In 2024, Cameco plans to produce 18mlbs of U3O8 at both McArthur River and Cigar Lake (100% basis). They are considering a potential expansion of McArthur River to its full licensed capacity of 25mlbs pa and a Cigar Lake life extension to 2036.

- Notably, second-tier projects are on hold as the demand has not reached their desired level. It's crucial to note that the long-term uranium market contract price currently stands at $75/lb, compared to the spot price of around $100/lb.

- For 2024, Cameco anticipates U3O8 sales of 32-34mlbs (+3% YoY) with an average realized price of $75/lb and cost guidance ranging from $57-60/lb. Consequently, Cameco expects total committed purchases of ~9mlbs of U3O8 for 2024, excluding Inkai, which implies ~4.7mlbs from third parties. Additionally, Cameco may consider up to 2mlbs in spot purchases. This information during 4Q results led to a negative market reaction. However, management clarified that their leading market position allows them to negotiate optimal delivery times with utilities to address this situation. Furthermore, Cameco currently holds 10.3mlbs in inventory.

Cameco

PORTFOLIO COMPANY (IMC & NCC)*

CAMECO CORP. (CCO CN), URANIUM

MARKET CAP $ 18 BILLION

- Management addressed concerns about the cash flow sensitivity of a $5/lb uranium price increase having a negative cash flow impact of $49m according to their publication during 4Q results. They clarified that, as a 40% owner in the JV Inkai in Kazakhstan, they purchase their share of uranium production at a 5% discount to market prices. The recovered margin (the difference between the price they pay and the cost of production) is then received as a dividend in the following year, resulting in a negative cash flow impact for that year without accounting for the subsequent year's benefit. The management pledged to enhance communication to investors in 1Q 2024.

- As of 4Q23, the company's long-term U308 contract book totaled 205mbls, compared to 180mlbs in 4Q22. Due to price ceilings in existing contracts, average price realizations for the 2024-2028 period are projected at USD $58-72/lb, considering spot prices of US$100/lb. However, the current higher price environment is prompting re-contracting at significantly improved terms.

- The acquisition of Westinghouse has substantially increased the company's exposure to the downstream nuclear supply chain. Recently, they raised their forecast EBITDA growth rate to 6-10% CAGR over five years from the initial guidance of ~3.6%, underscoring their positive outlook for the business

PORTFOLIO COMPANY (ECF)*

CHORD ENERGY CORP. (CHRD US), OIL & GAS UPSTREAM

MARKET CAP $ 10 BILLION (PRO FORMA)

Chord is an independent upstream company with assets in the Williston Basin. The company's operations are focused in the North Dakota and Montana areas of the Williston Basin targeting the Middle Bakken and Three Forks formations. In mid-2022, Chord Energy merged with Whiting Petroleum Corporation.In 4Q23, Chord announced it will acquire Enerplus.

HIGHLIGHTS

- In the recent meeting, the primary focus was on the acquisition of Enerplus through a stock and cash deal, valuing Enerplus at $4.2bn, inclusive of debt. Following the transaction, pro forma equity ownership stands at approximately 67% for Chord and 33% for Enerplus.

- Chord, already possessing the largest acreage in the Williston Basin, now gains access to prime inventory in the Bakken through this acquisition. The resulting combined company boasts 1.3m net acres in the Bakken, featuring over 1,800 drilling locations, all viable with oil break-even points of at least $60/bl.

- Both Chord and Enerplus demonstrated superior well productivity in the basin compared to their peers throughout 2023. While Enerplus wells outperformed Chord on a barrel per foot basis, they also exhibited a moderately higher decline rate.

- The strategic goals include targeting annual cost synergies of up to $150m by 2026, achieved through reductions in general and administrative expenses $40m, lease operating expenses $55m, and drilling, completion, and facilities costs $55m.

- The pro forma free cash flow for 2024 is estimated to be around $1.2bn, with the post-close expected by mid-2024. Chord aims to maintain a cash return target of 75% or more of FCF.

- Because of the equity-heavy financing of the deal, the balance sheet remains robust, reflecting a net debt/EBITDA of 0.2x by the end of 2024.

- Analysts widely anticipate Chord to continue as the logical consolidator in the Bakken, with Gryson Mill Energy, a privately held entity, currently on the market.

PORTFOLIO COMPANY (ECF)*

CHORD ENERGY CORP. (CHRD US), OIL & GAS UPSTREAM

MARKET CAP $ 10 BILLION

- Before the Chord-Enerplus deal, there were rumours of Devon Energy considering a merger with Enerplus. As a $30bn market cap company, Devon might still harbour interest in further consolidation as some analysts consider Devon Energy in having an inventory problem.
- However, as a dedicated Bakken exploration and production entity, Chord is exposed to specific risks associated with operating in a single basin, including factors such as volatile weather, regional pricing differentials, and supply chain/logistics challenges etc.

COMSTOCK RESOURCES

PORTFOLIO COMPANY (ECF)*

COMSTOCK RESOURCES (CRK US), OIL & GAS UPSTREAM

MARKET CAP $ 2.4 BILLION

Comstock Resources is a leading independent natural gas producer with operations focused on the development of the Haynesville shale in North Louisiana and East Texas.

HIGHLIGHTS

- Comstock holds a significant presence in the Haynesville region, boasting an extensive 553'000 acres, 1'463 net drilling locations. With over 25 years of drilling activity based on 2023 data, the total resources, encompassing 1P+2P+3P, amount to 19.8tcfe.
- Anticipating a reduction to a five-rig program in 2024, Comstock plans to allocate two rigs to the Western Haynesville, where it has strategically amassed a net acreage position exceeding 250'000 acres.
- Management expresses enthusiasm for early successes in the Western Haynesville, having drilled 10 wells with two rigs, delving deeper by approximately 1,600 feet. "Competitive considerations" prevent the inclusion of specific acreage details in the presentation.
- The 2024 volume guidance is set at 1'425-1'525mcfe/d, reflecting a 3% YoY increase at the midpoint. However, management is open to further activity reduction if natural gas prices continue to weaken.
- Despite a challenging natural gas price environment, Comstock maintains an $845m capital budget for 2024, emphasizing ongoing expansion and development efforts in the Western Haynesville. The company's commitment to long-term exploration remains unwavering.
- Comstock prides itself on the industry's lowest operating cost structure, with 4Q23 operating costs standing at a remarkable $0.83/mcfe. This is on average 40% lower than peers. However, when considering additional interest expenses of $0.33/mcfe, Comstock ranks as the second lowest producer in the United States.

COMSTOCK RESOURCES

PORTFOLIO COMPANY (ECF)*

COMSTOCK RESOURCES (CRK US), OIL & GAS UPSTREAM

MARKET CAP $ 2.4 BILLION

- While the debt stands at a relatively high $2.7bn, Comstock stands out as one of the few natural gas producers in the U.S. that did not undergo bankruptcy proceedings and witnessed a reduction in debt post Chapter 11.
- The company benefits from a strategic relationship with Jerry Jones, a successful Dallas businessman and owner of the Dallas Cowboys, who has been the company's largest shareholder since 2018/19, holding a 65% stake.
- Comstock enjoys direct access to the lucrative Gulf Coast markets and the LNG corridor, further positioning itself strategically in the energy landscape.

DIAMONDBACK ENERGY

PORTFOLIO COMPANY (ECF)*

DIAMONDBACK ENERGY (FANG US), OIL & GAS UPSTREAM

ENTERPRISE VALUE $ 62.2 BILLION (PRO FORMA)

Diamondback Energy is focused on unconventional, onshore oil and gas reserves in the Permian Basin in West Texas. Diamondback's activities are primarily focused on the horizontal exploitation of multiple intervals within the Wolfcamp, Spraberry and Bone Spring formations. On Diamondback Energy announced the acquisition of Endeavour Energy Resources in February 2024.

HIGHLIGHTS

- In the recent meeting, the primary discussion centered around Diamondback's announcement of a substantial $26bn acquisition of privately held Endeavor, the largest private operator in the Permian Basin. The acquisition comprises $17.8bn in stock (69%) and $8.0bn in cash (31%).

- Endeavor adds 353kboe/d production, plus 344'000 net acres and 2'300 locations (<$40Bbl).

- The pro-forma Diamondback will control 838k net acres in the Permian with 816kboe/d of production. This positions Diamondback as a significant player, controlling ~20% of Midland oil production, close to the Exxon/Pioneer combination at ~26%.

- Diamondback will have best in class inventory depth and quality with >6'100 remaining core locations with a break-even of <$40 WTI. This suggests a reserve life of 12-13 years effectively addressing previous concerns regarding inventory backlog.

- Furthermore, significant adjacent acreage positions of >100'000-acre overlap will enhance Diamondback's ability to extend lateral lengths and improve well design.

- Analysts express confidence in the deal, citing Diamondback's strong reputation as a superior Midland operator and Endeavor's above-average sub-basin productivity and technical expertise as harmonious factors minimizing execution risk.

- Diamondback is optimistic about maintaining its robust operational performance, lean cash cost structure, and peer-leading well costs, resulting in top-tier cash margins and a recycle ratio, consistently surpassing industry averages. Diamondbacks' cash margin over the last few years has been among the highest at 79% vs. 70% for peers.

DIAMONDBACK ENERGY

PORTFOLIO COMPANY (ECF)*

DIAMONDBACK ENERGY (FANG US), OIL & GAS UPSTREAM

ENTERPRISE VALUE $ 62 BILLION (PRO FORMA)

- The deal is expected to generate $550m of annual synergies including $325m from operations, $150m from allocation and land and $75m of financial and corporate synergies.
- Diamondback estimates 10% FCF accretion in 2025 aided by reduced spending.
- However, Diamondback will slow capital returns to 50% FCF (vs. 75%), with plans to reduce pro-forma net debt to <$10bn vs. ~$13.4bn. Management is optimistic they can get to <$10bn net debt by mid-2025.
- Diamondback is slightly more hedged (up to 3/4 of production) than in the past as the company looks to insure the Endeavor purchase price.
- Despite these adjustments, the market has responded positively to the deal, positioning the pro-forma company as the natural Permian mega-cap (with a market cap >$40bn) and a preferred pure-play choice, potentially leading to a re-rating and closer alignment with industry giants.
- Following the close of the transaction, Autry Stephens, Endeavor's founder, will retain ~39% ownership of the combined company, potentially making him the wealthiest oilman in the United States.

PORTFOLIO COMPANY (ECF)*

MURPHY OIL (MUR US), OIL & GAS UPSTREAM

MARKET CAP $ 6.2 BILLION

Murphy Oil Corporation is an independent exploration and production company. It explores for and produces crude oil, natural gas, and natural gas liquids. The company primarily operates in the United States and Canada and holds exploration acreage in various offshore basins globally like Gulf of Mexico, Brazil, Côte d'Ivoire and Vietnam.

HIGHLIGHTS

- Murphy distinguishes itself with a unique drill-bit offering in comparison to its North American shale counterparts. It has three producing areas onshore US, onshore Canada, offshore Deepwater Gulf of Mexico. Additionally, Murphy explores international opportunities in Vietnam, Brazil, and Cote d'Ivoire.

- Murphy views the size of its company as a strategic advantage, contributing significantly to its success in M&A. This is attributed to the company's ability to attract assets that larger corporations might overlook. While actively pursuing suitable assets at favorable prices, Murphy does not feel obligated to engage in M&A, as it can maintain scale and oil weighting with its existing inventory.

- Murphy's onshore business boasts 25 years of locations breaking even below <$50/bl, while the offshore business can sustain scale with known locations through 2028.

- In Canada, at Tupper Montney, Murphy holds a substantial inventory with over 50 years of locations. Montney is expected to reach a plant capacity of 500mmcf/d later this year and this with breakeven costs of below CAD 1.20/mcfe.

- In the US Eagle Ford, Murphy boasts 1,200 future locations on 120,000 net acres, producing 33mboe/d with an 87% liquids weight.

- In the offshore Deepwater Gulf of Mexico, Murphy is the 5th largest producer, achieving 84mboe/d in 2023.

- While inflation and increased workover activity have led to higher operating expenses in the Eagle Ford and the Gulf of Mexico, Murphy anticipates a return to the $10-$11/boe range in 2025 and beyond.

- Murphy has initiated procurement for the Lac Da Vang field development project in Vietnam, with first oil forecasted in 2026 and phased development extending through 2029.

MURPHY
OIL CORPORATION

PORTFOLIO COMPANY (ECF)*

MURPHY OIL (MUR US), OIL & GAS UPSTREAM

MARKET CAP $ 6 BILLION

- The 2024 total exploration budget is set at $120m, allocated to drilling 2 Gulf of Mexico and 2 Vietnam wells.
- Murphy achieved a 139% total reserve replacement ratio and has now a 11-year reserve life.
- In 2024, Murphy aims to reduce long-term debt by $300m, reaching a final target of $1.0bn in debt. This would mark a total debt reduction of $1.7bn since YE2020. Once long-term debt is at $1.0bn, a minimum of 50% of free cash flow will be allocated to share buybacks and potential dividend increases.
- The company prefers generating free cash flow for shareholder returns rather than aggressively growing production. Murphy has paid dividends for more than 60 years, returning >$7.0bn to shareholders since 1961.
- Murphy perceives having the founding family on the board as a strength. This has translated into more disciplined major investment decisions and patience during periods of undervaluation.

SUNCOR

SUNCOR ENERGY (SUN CN), OIL & GAS INTEGRATED

MARKET CAP $ 45 BILLION

Suncor Energy is an integrated energy company focused on developing the Athabasca oil sands basin in Canada. The Company extracts and upgrades oil sands into refinery feedstock and diesel fuel, explores for, develops and produces natural gas, refines crude oil and markets a range of petroleum and petrochemical products, and operates crude oil pipelines and retail petroleum stations.

HIGHLIGHTS

- In FY2023 Suncor achieved its production targets for the first time in six years and attained a record upgrader utilization of ~92%. Additionally, the company executed upstream and downstream turnarounds within budget and on schedule, marking a historic milestone. Despite this success, Suncor fell short of its refining utilization guidance of 90%, as opposed to the projected range of 92-96%. Nevertheless, the company continued to demonstrate advancements in safety, with a noteworthy year-over-year reduction of ~50% in lost time incidents.

- The newly appointed CEO, Kruger, implemented a streamlined corporate structure, successfully accomplishing a headcount reduction of around 20%, resulting in annual savings of ~CAD450m - surpassing the target by CAD50m.

- Through the acquisition of Fort Hills for CAD 2.2bn, Suncor strengthened its core business and addressed concerns about long-term bitumen supply for upgraders as the Base Mine Plant is reaching end of mine life by ~2035. Simultaneously, the company divested from non-core assets in the UK North Sea and renewables, generating CAD 1.8 bn.

- Strategically, Suncor maintains a strong focus on reducing its breakeven by ~$5/bl, aiming for an overall WTI breakeven in the "low-50s."

- Operating costs at Fort Hills in 2023 were ~15% higher YoY. Suncor is committed to enhancing mining efficiency, specifically in de-bottlenecking and ore delivery from the North Pit. These initiatives are expected to lower unit costs, as improved variable input quality and more efficient fleet operations contribute to increased reliability and productivity.

PORTFOLIO COMPANY (ECF)*

TOTALENERGIES (TTE FP), OIL & GAS INTEGRATED

MARKET CAP $ 157 BILLION

TotalEnergies is a global multi-energy company that produces and markets energies: oil and biofuels, natural gas and green gases, renewables and electricity and is active in more than 130 countries. The company also owns and manages gasoline filling stations worldwide.

HIGHLIGHTS

- TotalEnergies (TTE), projecting a pre-cash return breakeven in the low $20s/bl for 2024/25e, underscores the cash competitiveness of its multi-energy growth approach. The strategic focus revolves around two key pillars: oil & gas and Integrated Power, including renewables.

- Aiming for a 4% CAGR in total energy production throughout the decade, TTE is committed to reducing emissions. As an ESG leader, the company reported a 22% YoY and 7% QoQ decrease in Scopes 1 & 2 emissions from its facilities in 4Q23, totaling 7.9mt.

- Anticipating a 2-3% upstream volume growth in the coming years, TTE boasts a development queue with highly margin-accretive growth, contributing to a 6% increase in CFO/boe in 2024 compared to 2022.

- Continuing progress on a number of upstream projects. Mero 3 in Brazil is expected to achieve first oil by YE24, with Mero 4 following in 2025. Ballymore in the GoM will also come online in 2025. Tilenga in Uganda and Ratawai in Iraq are expected to reach first oil by YE25. Planned FIDs for 2024 include Sepia 2 and Atapu 2 in Brazil, Kaminho in Angola, and Block 58 in Suriname.

- Criteria for sanctioning projects are 1) breakeven must be <$30/bl Brent after tax, 2) technical cost (capex + opex) must be <$20/boe, 3) emissions intensity must be less than portfolio average.

- Reserve replacement ratio of 141% in 2023 and a proved reserve life of 12 years (2P at 18 years).

- In 2023 production cost averaged $5.5/boe. However, in 4Q23 there were at $5.1/boe after they divested less economic positions like Canada. For 2024 TTE targets upstream production cost of $5/boe. Since 2014 improved breakeven from $100/boe to <$25/boe.

TotalEnergies

PORTFOLIO COMPANY (ECF)*

TOTALENERGIES (TTE FP), OIL & GAS INTEGRATED

MARKET CAP $ 157 BILLION

- TTE has opted to own a 75% interest of a new drillship as a hedge of the rising service cost. Management said that they will consider other transactions if the opportunities arise.
- Structural advantage with an overall company decline rate of just 3%, due to having a lot of mature stable production, along with LNG and FPSOs.
- TTE will maintain a $1bn budget for exploration and appraisal, of which 30% will be spent in Namibia during 2024.
- Expects LNG sales >40mtpa in 2024 (30% equity, 40% long-term supply and 30% spot).with LNG selling price of ~$10/mmbtu in 1Q2024. Bullish on Asia LNG growth. TTE has infrastructure in place as it owns 19 LNG tankers as of YE22 and plans to grow the fleet to 30.
- Focused on countercyclical M&A activity and also on smaller size M&A of around $1-2bn, TTE is interested in US natural gas assets to cover its equity interest in Rio Grande LNG with start-up in 2027. Can acquire up to 1bcf/d, may be done in a couple of smaller pieces. However, as already decide in 2015, they will not do any US oil shale.
- In refining, short-term goals include maintaining high utilization and cost control, while the long-term plan involves rationalizing refining capacity and transitioning to more profitable facilities such as biorefineries.
- For 2024 investment budget of $17-18bn, of which $5bn will go to the Integrated Power division and a total of 33% to low-carbon energies (renewable energies + low-carbon molecules such as biofuels and e-fuels).
- TTE strategy in power is to be very selective, participating in deregulated markets, taking on more merchant exposure (currently 10%, targeting 30% by 2030). They believes its consistent strategy is the reason for its success in power. Integrated model consists of renewable generation capacity, flexible generation (CCGT), battery storage, and trading.
- Management says its power business has limited volatility even with fluctuations in gas prices due to the nature of their strategy and contracts.

TotalEnergies

PORTFOLIO COMPANY (ECF)*

TOTALENERGIES (TTE FP), OIL & GAS INTEGRATED

MARKET CAP $ 157 BILLION

- The Integrated Power business will continue to grow in 2024, with power generation expected to reach more than 45 TWh with CFFO before WC is expected to increase to between $2.5-3bn. ROACE was already close to 10% in 2023.
- Capacity in operation now stands at 22.4 GW (at 100%), an increase of 33% over 12 months and 10% over Q4-2023 alone. Total capacity in production, under construction or in development now exceeds 80 GW, an increase of more than 16% over 12 months.
- TTE seems to be on track to achieve its target of 100 GW by 2030.
- Despite some investor concern, TTE is not interested in a large Utility-focused M&A deal, as the business models are typically not compatible.
- Management feels comfortable of their current gearing of 5% and does not see the need to further reduce the leverage.
- On track to deliver >$100bn FCF over 2023-28 at $80/bl. Management indicated that the $2bn/quarter buybacks is a reasonable baseline going forward under recent market conditions.
- Management envisions that in the long-term, TTE exposure will be around 30% in oil, 40% in natural gas and LNG, and 20% in Power, reaching this distribution around the year 2030.
- 2024 is a big year for the company as it celebrates its 100-year anniversary.

transalta

PORTFOLIO COMPANY (CPC)*

TRANSALTA CORP. (TA CN), POWER

MARKET CAP $ 2 BILLION

TransAlta has transformed itself from one of Canada's largest electric utilities into a global independent power producer with assets in Australia, Canada, and the US. It trades and markets electricity and gas in Canada and the US. The TransAlta's generating capacity invested in a mix of wind, solar, hydro, and coal assets.

HIGHLIGHTS

- TransAlta has affirmed its adjusted EBITDA for 2024 at CAD 1.15-1.30bn, along with a steady Free Cash Flow guidance ranging from CAD 450-600m. The Alberta portfolio is expected to contribute $500-600m EBITDA in 2024, representing ~45% of the total. Notably, a $5/MWh change in Alberta power price is anticipated to impact EBITDA by $20m or roughly 2%.

- Maintaining a commitment to financial discipline, the company will pursue growth opportunities that meet or exceed a 10%+ return target, emphasizing returns over generation growth.

- Operational excellence is a key focus, with an average availability increase to 95% expected during 2024-2028, compared to an average of 89% during 2019-2022.

- However, the market expressed disappointment over the slower-than-expected transformation into a renewable power company. In FY2023 46% of EBITDA came from natural gas.

- Capital has shifted away from gas-power generation, redirecting towards the higher-multiple renewables platform. The company's target of achieving a 70% renewables composition has been extended to 2028, three years later than anticipated.

- Plans include adding up to 1.75 GW of new renewable capacity, focusing on onshore wind, solar, and battery storage in targeted geographies such as Canada, the U.S., and Australia, with a planned investment of CAD 3.5bn by 2028. This contrasts with the earlier plan of adding 2 GW of renewable capacity with CAD 3bn in investments by 2025.

- The prospective development pipeline of ~4.8 GW aims to more than double to 10 GW by 2028, with approximately 45% in the U.S., 45% in Canada, and 10% in Australia.

transalta

PORTFOLIO COMPANY (CPC)*

TRANSALTA CORP. (TA CN), POWER

MARKET CAP $ 2 BILLION

- The phased retirement of old coal-fired power plants in Alberta is underway, with only one remaining, slated to be decommissioned by 2025.
- Post-2025, the company envisions incorporating new technologies such as hydrogen, fusion, Small Modular Reactors, and carbon capture into its energy mix.
- Management is guiding towards share repurchases of $150m in 2024, following a repurchase of $87m worth of common shares in 2023. This buyback target represents ~40% of its projected 2024 FCF.
- TransAlta exited 2023 with a robust liquidity position of $1.7bn and a favorable leverage position of 2.5x, below its target range of 3-4x

VERMILION
ENERGY

VERMILION ENERGY (VET CN), OIL & GAS UPSTREAM

MARKET CAP $ 1.8 BILLION

Vermilion was established in 1993 and is focused on reliable growth and income through internationally diversified operations in Canada, France, Germany, the Netherlands, Australia, Ireland, and the United States. The company also has emerging interests in Central and Eastern Europe.

HIGHLIGHTS

- Vermilion's internationally diversified assets provide exposure to premium commodity markets while providing a diversified cash flow base. Vermilion has assets located in Canada (Montney, SE Saskatchewan, west central Alberta), the US (Powder River Basin), and internationally (Australia, Germany, the Netherlands, France, Ireland, and exploration upside in central & eastern Europe).

- The diversified cash flow and low corporate decline rate allows for sustainable free cash flow.

- On November 2023 the EU published a review concluding that the windfall tax is not required in 2024 and this will result in a strong increase in Vermilions free cash flow. On strip, management expects cash flow and free cash flow of CAD 1.3bn and CAD 0.7bn, respectively.

- Big disappointment with Vermilion's 18% YoY decline in 2P reserves to 429.8mboe, driven by a combination of technical revisions, asset dispositions, and production revisions.

- The management highlighted that ~40% of the negative technical revisions were related to capital allocation decisions, as the company intends to prioritize its Mica Montney development and Germany exploration programs in the near term.

- Saskatchewan, US, and France assets were impaired by $543m, $246m, and $227m, respectively.

- Management indicated that the company had conservatively booked reserves from the Montney asset, while the company's exploration program in Germany was largely unbooked.

- 2024 production guidance of 84mboe/d at the midpoint at CAD 600-625m of capex.

VERMILION ENERGY

VERMILION ENERGY (VET CN), OIL & GAS UPSTREAM

MARKET CAP $ 2 BILLION

- North America capex of CAD 380m focused on Montney development, including the drilling of 11 wells. International capex of CAD 230m focused on drilling natural gas exploration wells in Germany and gas plant in Croatia.
- Net debt was CAD 1.1bn at YE23 vs target of CAD 1bn. Due to the progress made on the net debt target Vermilion will increase shareholder returns from 30% of excess free cash flow to 50% for all of 2024 starting April 1st 2024.

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Independent Capital Group Basel has been involved in commodity and energy investments for over 20 years - we are happy to help you with inputs on the markets, the companies and with tailor-made investment strategies along the “Road to Green” to find the commodity allocation you are looking for.

Thank you for your trust

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APPENDIX

This paper is based on sources from Scotiabank, Bloomberg, Jefferies, JP Morgan, UBS, Barclays, BMO, IEA, OPEC, EIA and from the respective companies. If you would like to see a specific dataset, please do not hesitate to contact us at research@independent-capital.com.

*For companies marked as "Portfolio Companies" the following abbreviations were used:

(ECF) Energy Champions Fund
(IMC) Industrial Metals Champions Fund
(NCC) Nuclear Comeback Certificate
(CPC) Clean Power Champions Fund

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