EQUITY RESEARCH

Dennis Fong, P.Eng.
+1 403-216-3400
Dennis.Fong1@cibc.com

Cheryl Wu, CFA
+1 403-216-8518
Cheryl.Wu@cibc.com

August 30, 2022 **Earnings Revision**

Large-cap Energy Model Refresh

Key Themes In Large-cap Energy For H2/22

Our Conclusion

Commodity prices remained relatively strong through the second quarter, but weakened as we entered Q3/22 as concerns of a global recession picked up. On strip pricing, cal-22 WTI is at ~US$98, compared to two months ago at ~US$103. Despite the modest pullback, we believe the current macro economic environment sets companies up well to continue returning capital to shareholders as debt targets are achieved. Despite concerns surrounding energy security, we have yet to see a significant uptick in interest in Canadian oil sands companies, and we expect buybacks and/or special dividends could trigger incremental focus. We continue to see value within large-cap energy, as the group is discounting at ~US$62 WTI, well below strip pricing in 2023 at US$86 and longer term (2024+) at ~US$75.

Key Points

Cash costs are rising, but profitability remains strong because of commodity price strength. Commentary through Q2 earnings was focused around cost management and capital return policies. Even the oil sands companies were not immune to increasing cost pressures, including labour shortages during turnarounds, rising energy input costs and the payouts of oil sands projects triggering step-changes in royalty rates. Further, given the strength in commodity pricing, companies have chewed through the bulk of their respective tax pools and are in cash taxable positions. We estimate oil sands companies will contribute ~$37 billion towards government coffers through a combination of royalty payments and cash taxes.

We continue to see value in our large-cap energy universe. Despite the volatility of commodity prices YTD, WTI has still averaged ~US$100. We still do not see the continued strength of oil prices being reflected in the underlying equities despite the acceleration of cash returns to shareholders. As many companies are rapidly approaching debt floor targets, we expect excess free cash flow allocation to shareholders could approach 100% for many companies. We estimate the Canadian large-cap group is trading at an EV-based 2023E FCF yield of ~26% on strip pricing.

Macro setup continues to look strong for North American refiners. With renewed news around a potential Iran JCPOA-style nuclear agreement and record lows in OECD global refined products and crude oil inventories, we continue focusing on potential persistence in refining margins. North America remains a cost-advantaged basin given the widening spread between local and global natural gas pricing. Henry Hub-TTF widened to ~US$87/Mcf recently, driving ~US$17/Bbl (QTD) of advantage for North American refiners. We believe there could be further widening of this basis if Europe experiences a colder winter and consumers are forced to switch to burning heating oil (diesel) to heat homes and continue industrial processes.

Sector:

Energy

Key Changes

Price Target Changes

- Canadian Natural Resources Ltd. ↓
- Cenovus Energy Inc. ↓
- MEG Energy Corp. ↓
- Ovintiv Inc. ↓

All figures in Canadian dollars otherwise stated.

Please see "Price Target Calculation and Key Risks to Price Target" information on page 15- 16.
For required regulatory disclosures please refer to "Important Disclosures" beginning on page 18.

Industry Positioning And Company-specific Themes

Commodity prices remained relatively strong through the second quarter, but weakened as we entered Q3/22 as concerns of a global recession picked up. On strip pricing, cal-22 WTI is at ~US$98, compared to two months ago at US$103. At a high level, we prefer integrated companies, given the existing dynamics around refined products demand, continued strength in (North American) downstream margins and the favourable relative cost structure for Canadian integrateds vs. global peers. We see five broad themes that should guide investor positioning through the remainder of 2022.

1) **Accelerated timing of cash returns to shareholders.** Under strip pricing, we estimate most (if not all) of our large-cap coverage universe will hit their primary debt targets by year-end or be on their way to achieve a prescribed "net debt floor." This is a trigger to increase excess free cash flow allocation to shareholders to ~100% through a combination of share buybacks and special/variable dividends. From a free cash flow allocation perspective, we expect the companies in our large cap coverage universe will achieve their respective targets in the following order: IMO, CVE, CNQ, SU, OVV, MEG.

2) **Capital discipline will be largely maintained, but cost inflation could partially offset savings observed over the past two years.** Our estimates incorporate 10% to 15% cost inflation for 2023 capital spending compared to the proposed 2022 capital spending levels. We believe that oil sands companies have done well thus far to moderate the impact of cost inflation given pre-planning for turnarounds, but as the costs of materials and labour increase, this should be reflected in go-forward estimates.

3) **We expect cash costs to increase, but increased throughput and utilization could help moderate the impact.** Rising natural gas pricing was already cited in many conference calls, but we expect energy opex will remain a focus for the remainder of this year. We highlight that companies like CNQ, CVE and OVV, which have natural gas exposure, and MEG, SU, CVE, and IMO, which have cogen or electricity generation capacity, are able to offset higher energy costs. Diluent pricing is generally lagged by a quarter and could result in a larger transportation cost for heavy oil producers (IMO, CVE and MEG).

4) **Canadian refining is advantaged.** We highlight several dynamics that could drive a much more bullish-than-expected environment for Canadian refiners.

    a. AECO pricing is elevated, but still well below U.S. and European natural gas pricing, driving a net opex benefit for local refineries and translating into higher margins.

    b. The premium enjoyed by SCO could narrow as SPR releases shift towards sweet crudes (and away from sours), lowering feedstock costs for Western Canadian refineries.

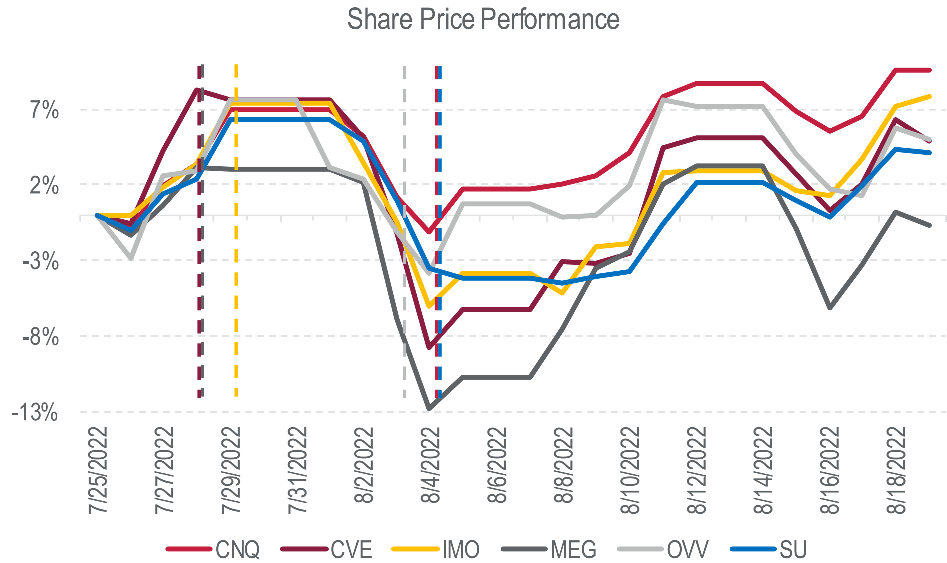
    c. Diesel exports are ramping as Europe tries to fill the void created by sanctions against Russia. We believe this could favour higher complexity refineries like those in Canada which are designed to cater to processing heavier barrels and increased diesel yields.

5) **SCO premium pricing should moderate, partially offset by planned maintenance in Q3/22.** While we highlight that synthetic crude oil (SCO) represents a favourable feedstock given its refined product yield, a portion of the ~US$7 per barrel premium continues to be driven by planned downtime at various oil sands mines and upgraders. We expect a premium of ~US$2.0 to US$3.0 per Bbl to persist, but the differential of ~US$7 to WTI should moderate in September and October as the SPR releases during this period are sweet-weighted crude. Syncrude and the Base Plant Upgraders continue to see maintenance in Q3, but are expected to be running at near full capacity for Q4/22.

Large Cap Performance Through Q2/22

Companies under our coverage reported in-line or better-than-expected Q2 earnings and share prices reflected positively after earnings releases. The majority of the variances to our estimates stemmed from higher-than-expected realizations partially offset by higher-than-expected opex. We continue seeing inflationary pressures weighing on companies' budgets. Energy and non-energy operating expenses were up significantly from the first quarter due to inflationary pressures on labour costs, and chemical and electricity prices in the U.S. and in Canada. CNQ, CVE and SU increased their 2022 capital expenditure guidance to reflect higher commodity prices and labor cost, along with accelerated projects. The line chart in Exhibit 1 highlights share price performance in comparison to the start of Q2 earnings.

Exhibit 1: Energy – Percentage Change Of Share Price From July 25, 2022, Current

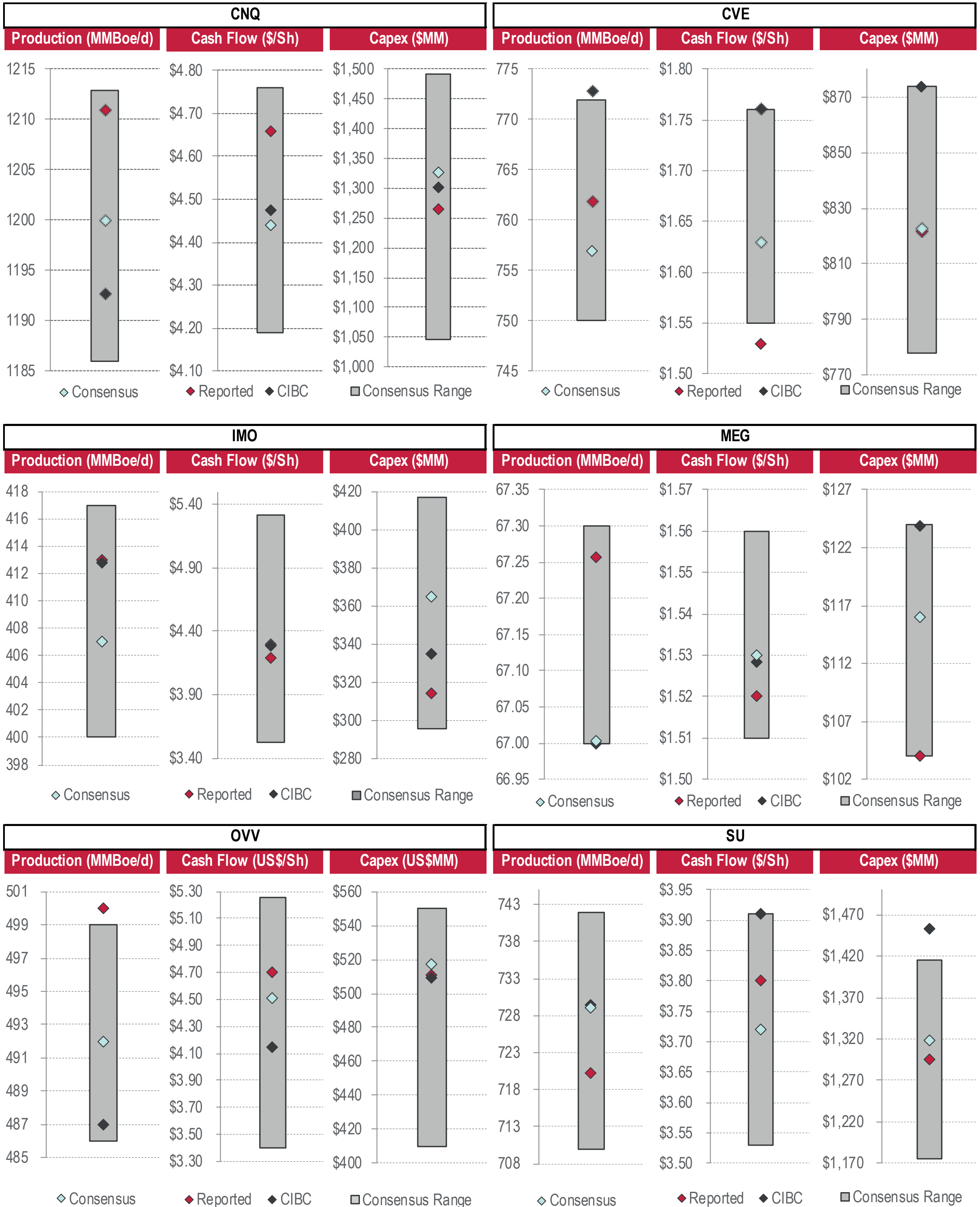


Dotted lines represent the respective company's earnings reporting date. Source: Factset and CIBC World Markets Inc.

Bar charts in Exhibit 2 highlight reported production, adjusted funds flow per share, and capital expenditure versus our estimates and consensus.

CIBC

Exhibit 2: Energy - Actual Vs. Consensus Vs. CIBC Estimates, Q2/22



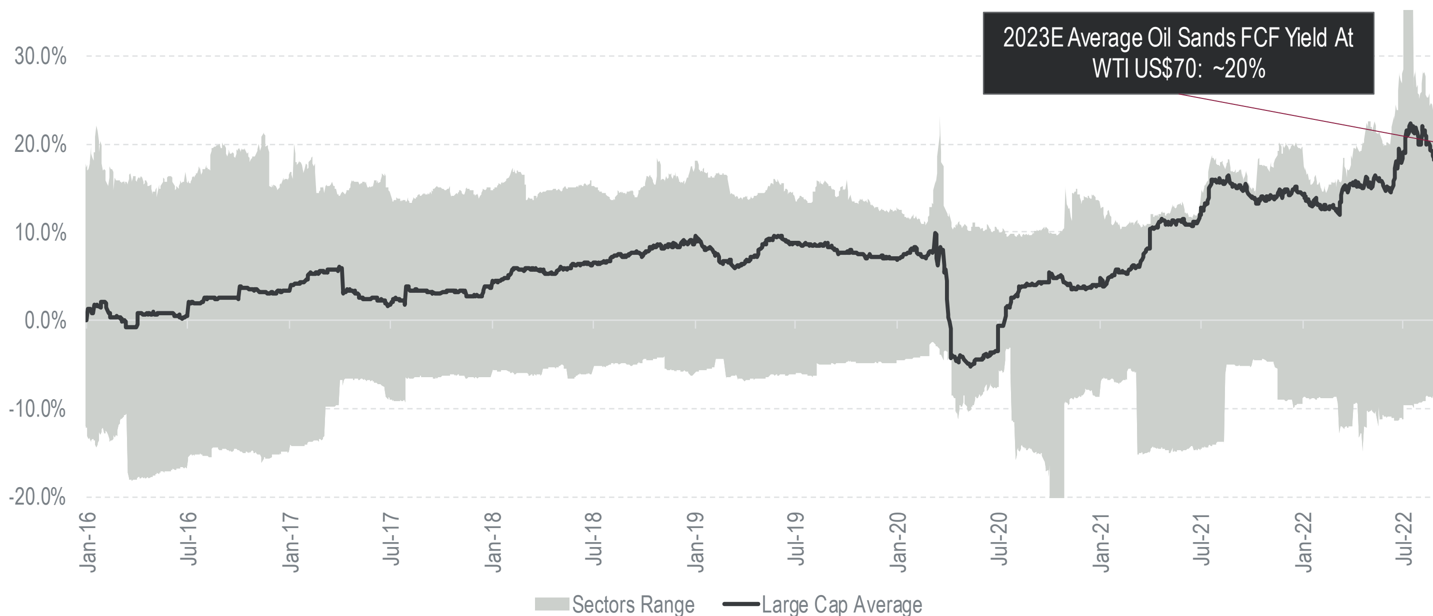
Source: Company reports, FactSet, and CIBC World Markets Inc.

Accelerating Cash Returns To Shareholders

Canadian large-cap energy companies continue to trade at an attractive valuation. As companies continue to de-lever and achieve interim net debt targets (and net debt floors), we expect allocation of free cash flow towards returns to shareholders to increase. Net debt floors announced by companies represent an average ~1.0x net debt to EBITDA at US$45 WTI – US$55 WTI, providing lower risk and better sustainability than we have seen in the past. On current strip pricing, we expect most companies to reach their net debt floors by H2/23 while still returning at least ~50% of free cash flow to shareholders. We believe once these targets (or floors) are achieved, companies could return as much as 100% of excess free cash flow to investors, providing shareholders a more direct pass-through of commodity price exposure.

We estimate that the Canadian large-cap group is trading at an EV-based 2023E FCF yield of ~26% on strip pricing. This marks the widest spread to the risk-free borrowing rate, the interest rate-focused asset classes (on Bloomberg consensus estimates), and the Canadian energy group's historical EV-based free cash flow yield over the past 20 years. The area chart in Exhibit 3 shows the free cash flow yield of the Canadian oil sands companies against other sectors on consensus estimates including the U.S. Majors, Super Majors, Canadian midstream, Telecom, Utilities and Mining industries. 2023E FCF yield of 20% at US$70 WTI is more than US$25 below the prompt month and ~US$8 below 2024 strip pricing.

Exhibit 3: Energy – Canadian Oil Sands EV-based Free Cash Flow Yield (%) Vs. Interest-rate Focused Industries On Bloomberg Consensus, 2016 – Present



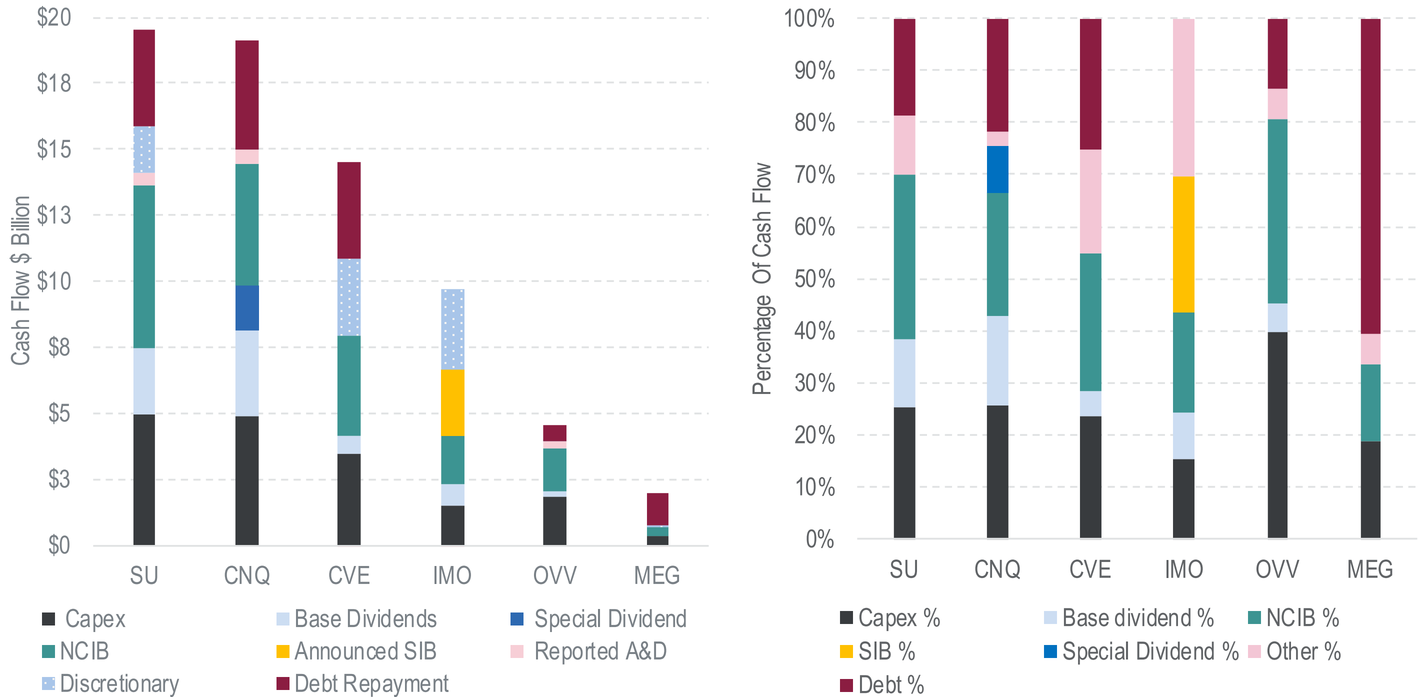
Note: Included Sectors - Oil & Gas (CDN / US / Super Major), CDN Midstream, Telecommunication, Utilities, and Mining

Source: Bloomberg and CIBC World Markets Inc.

Capital discipline is largely maintained, but companies are not immune to cost inflation. The YTD strength in the crude oil price, coupled with capital spending discipline, has accelerated the timing of achieving net debt targets. We believe the incremental, but volatile, cash flow generation will help translate into additional return of capital to shareholders. Oil sands companies were not immune to cost inflation, with CNQ, CVE and SU all providing upwardly revised capital spending guidance in Q2. Oil sands companies are expected to allocate ~25% of cash flow to capital expenditure and ~40% towards shareholder returns in 2022. As companies are getting close to maximizing the usage of their NCIBs, we expect to see more announcements around SIBs or special dividends. Given existing

valuations, investors could see outsized returns even if share prices are less correlated to the continued strength in the underlying commodity. Bar charts in Exhibit 4 highlight a summary of expected cash flow allocation based on announced capital allocation framework. We highlight that the discretionary amount in the chart on the left represents a company's ability to increase base dividends, issue special dividends and SIBs, on top of what has already been announced to date.

Exhibit 4: Energy – Capital Allocation Strategy, 2022E

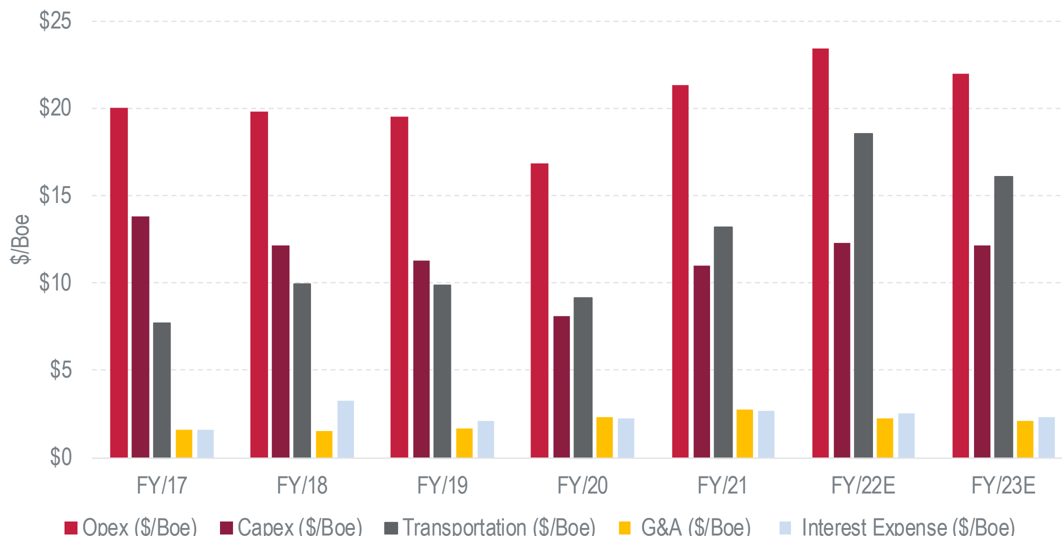


Source: Company reports and CIBC World Markets Inc. OVV is in USD.

Cost Inflation And Additional Cash Cost

Given backwardation in the curve, we believe energy/commodity-based components of operating costs could take a modest step back. Non-energy costs could remain resiliently higher, albeit partially offset by higher throughput. Our estimates incorporate the impacts of inflationary cost pressures (up to 10% to 15% vs. 2022 levels). We highlight a balance of upwardly revised 2022 capital spending, major projects being completed, the restart of West White Rose construction and lower planned turnarounds in 2023 as contributing to a flattened full-year spending level for the group.

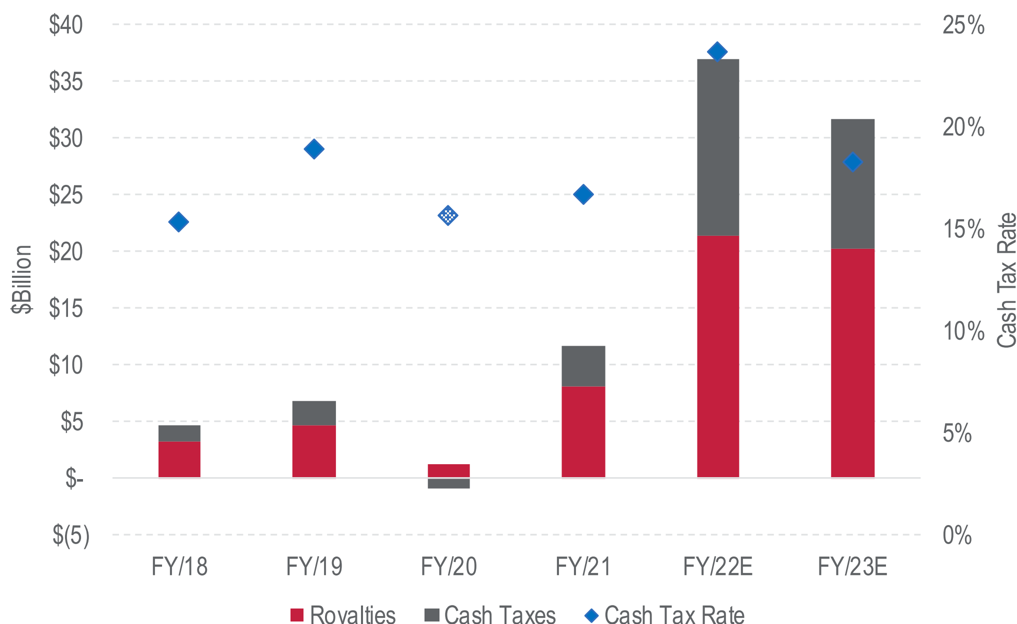
Exhibit 5: Energy – Opex, Capex, Transportation Expense, G&A, And Interest Expense Per Boe, 2017 – 2023E



Source: Company reports and CIBC World Markets Inc.

Tax starts to play a more significant role as companies have chewed through tax pools. Companies under our coverage have been focusing on cost improvement and that brings down breakeven to as low as $40/Bbl. Cost discipline has helped improve profitability significantly. We estimate companies will (on average) pay ~24% in cash taxes in 2022 and 18% in 2023 (on strip pricing). As tax depreciations are generally higher than accounting depreciations, we expect cash tax rates to remain slightly lower than statutory tax rates. Further, given the timing of payout of oil sands projects, the large-cap group could be paying up to ~$21.4 billion in royalty payments on 2022 production. Royalties are paid on a sliding scale and are expected to moderate if commodity prices soften.

Exhibit 6: Energy – Aggregate Royalties, Cash Taxes, And Cash Tax Rate, 2018 – 2023E



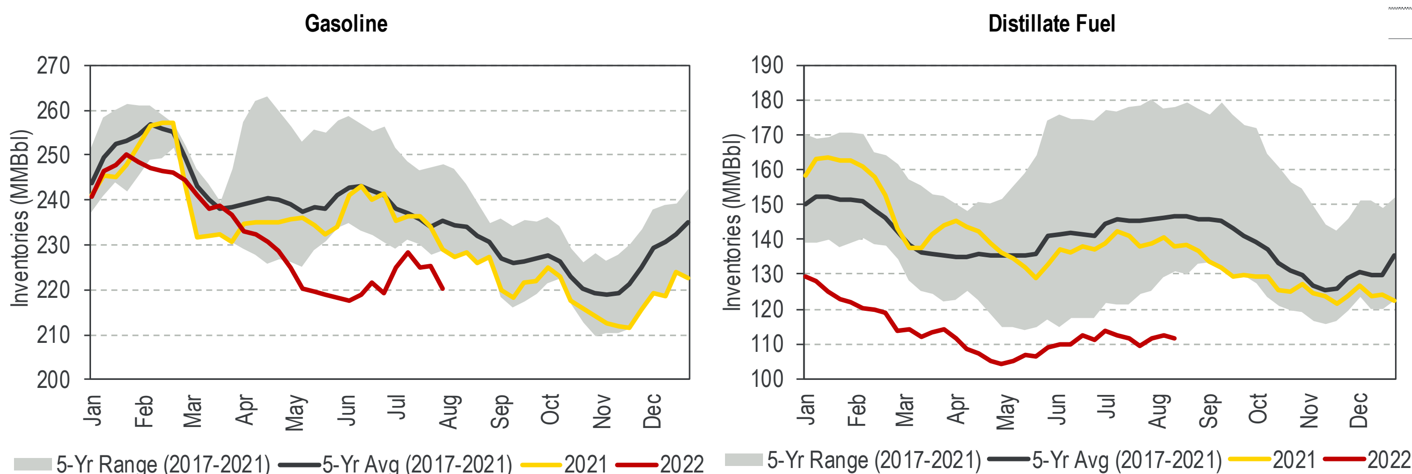
Source: Company reports and CIBC World Markets Inc. Cash tax rate = current tax expense/net income before tax.

Strong Downstream Margins Are Better Understood

While we believe the strength in refining margin was a well understood theme through Q2/22 reporting, we believe stronger-than-historical spreads could be resilient for the remainder of the year. We estimate QTD refining margin for Imperial Oil is ~$77/Bbl and for Suncor $70/Bbl, well above the 2017-2019 average of ~$52/Bbl and ~$41/Bbl, respectively.

The world is still consuming refined products despite the price, but we favour diesel over gasoline. Implied gasoline demand within North America was impacted by rising prices over the past few months. We saw implied total demand decline from ~20.8 MMBbl/d earlier this year to ~19.3 MMBbl/d. Despite the modest move in gasoline consumption, we expect diesel demand to remain strong for a combination of reasons, including potential natural gas to diesel switching as volumes through Nordstream 1 continue to remain low. Diesel inventories in North America remain well below the five-year historical range, as shown in Exhibit 7.

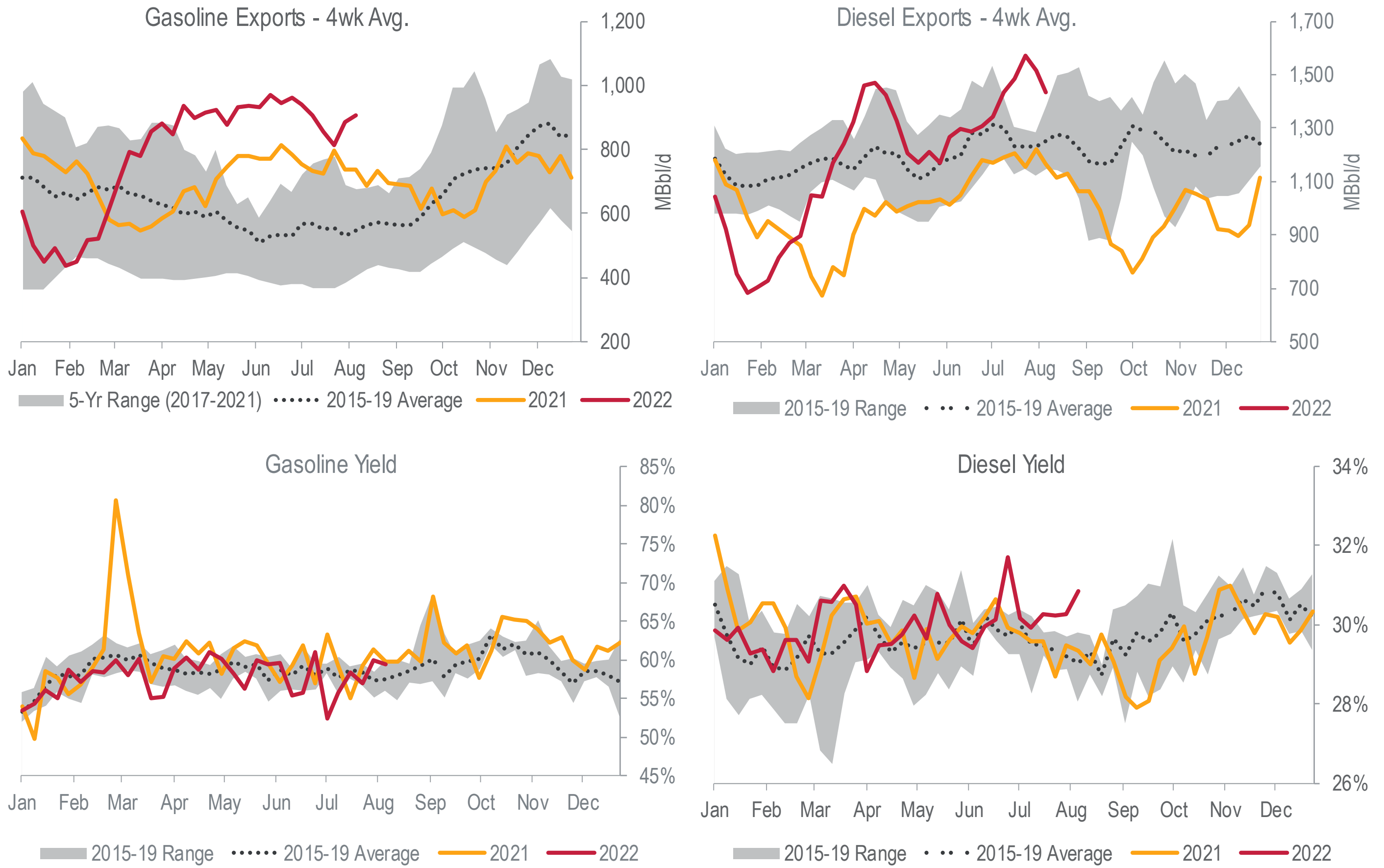
Exhibit 7: Energy – U.S. Gasoline And Diesel Inventories, 2017 – Current



Source: Bloomberg, EIA and CIBC World Markets Inc.

We view diesel demand as being resilient, as much of the commercial vehicle fleet (as opposed to light passenger vehicles) consumes diesel, including locomotives, ships and long-haul trucks. Further, Europe is a large consumer of diesel and we have seen exports run towards the upper end of the 2015 – 2019 historical range (and well above 2021 levels). Exhibit 8 below shows diesel and gasoline exports from North America as well as diesel and gasoline yield.

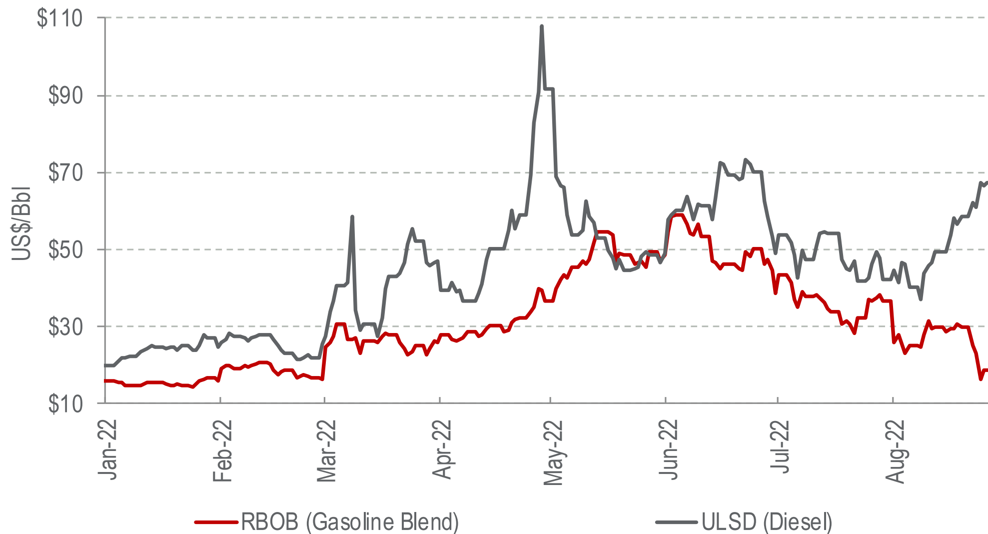
Exhibit 8: Energy – U.S. Oil Refined Products Exports And Yield, 2015 – Current



Source: Bloomberg, EIA and CIBC World Markets Inc.

This continued demand is translating to strengthening ultra-low sulphur diesel spreads to crude oil (which have diverged from gasoline). This is an important focal point for refiners and integrated companies – specifically those with heavy oil or SCO exposure as these two feedstocks provide a higher yield of diesel (middle distillates) as compared to conventional lighter oils. Exhibit 9 below shows the strengthening spread of diesel to crude oil which has diverged from gasoline.

Exhibit 9: Energy – Refined Products Spreads, January 2022 – Current



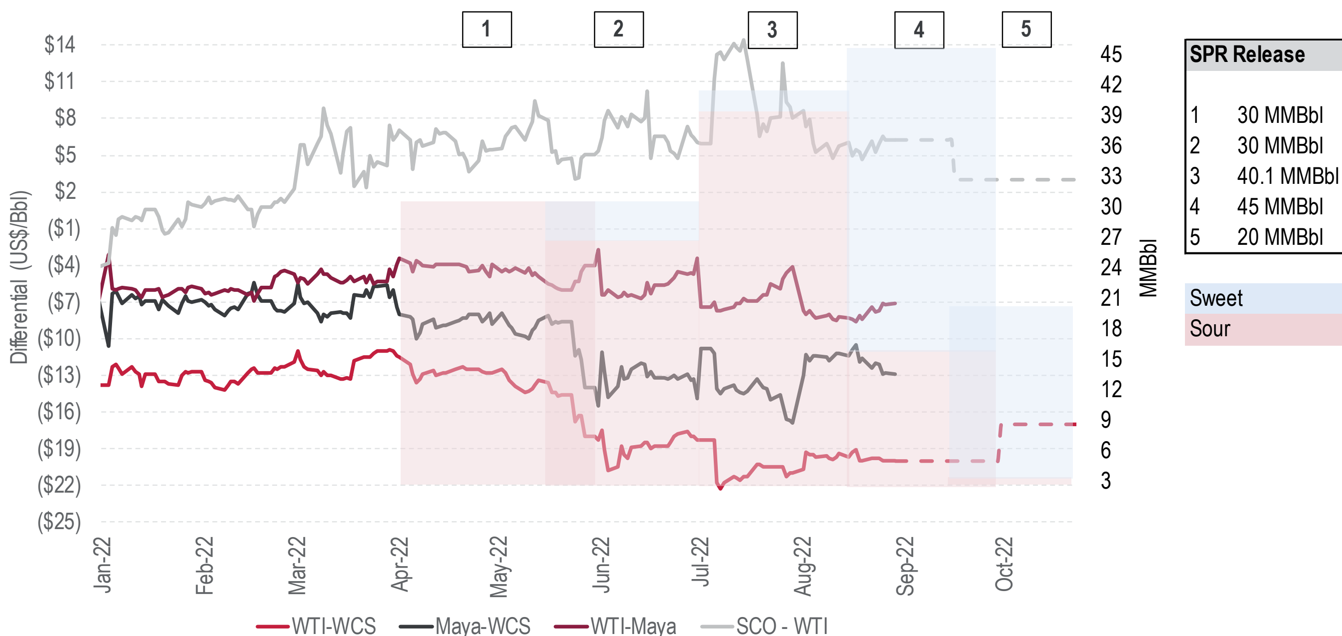
Source: Bloomberg and CIBC World Markets Inc.

We like SU, CVE and IMO as ways to gain exposure to this theme. We continue to favour integrated companies at this time given their exposure to stronger-than-normal refining margins and especially those with a focus on heavy oil feedstocks given their relative yield of diesel vs. gasoline. We see multiple themes that could impact the profitability of integrated companies, especially the ones with access to marketing capacity for their refined products.

1) SPR releases have focused more on sour crudes driving wider WCS-WTI spreads but are shifting towards releasing more sweet crudes, which could narrow the SCO-WTI premium we have observed for a majority of this year.
2) If Iranian barrels return to market, we could see an influx of lighter crudes and condensates, which could further negatively impact gasoline cracks (pushing refineries to de-emphasize conventional oil feedstocks).
3) Both sour and heavy barrels require more natural gas (energy and hydrogen) to process into useable refined products and with NYMEX hovering around ~US$9/Mcf, this drives a lower desire to purchase those types of barrels.
4) Diesel is a desirable product in Europe and with an AECO-TTF pricing differential of ~$94/Mcf, we believe refineries with Canadian exposure could see an ~US$18/Bbl margin advantage as natural gas is a feedstock for upgrading and treating crude oil.
5) The majority of returning OPEC+ barrels are medium/heavy and sour, driving further global competition for WCS barrels.

The line chart in Exhibit 10 below highlights the price differentials among various crude oil qualities and overlays the SPR releases. As the releases shift towards sweet barrels (and almost completely away from sour in September) we expect the WCS-WTI differentials to narrow.

Exhibit 10: Energy – Oil Price Differentials, Jan 2022 – Oct 2022E



Source: Bloomberg and CIBC World Markets Inc.

Company-specific Themes

- **CNQ:** The company declared a special dividend of $1.50 per share, payable to shareholders of record on August 23. While this pushes out the timing of reaching its net debt floor of $8 billion, reaction was generally positive for the accelerated cash return to shareholders. Looking forward, we expect this target to be achieved by H1/23 on strip pricing. We expect the company to generate ~$9.8 billion in 2022E free cash flow after capital spending and the dividend, suggesting ~$1.7 billion of share repurchases in H2/22.
- **CVE:** We expect Cenovus to achieve its ~$4 billion net debt floor in Q4/22, allowing the company to increase free cash flow allocation return to shareholders after the dividend to 100%. We estimate Q3/22 free cash flow inclusive of asset acquisitions and on QTD strip pricing to be ~$3.3 billion with net capital spending of ~$959 million. This suggests ~$1.3 billion in share repurchases based on a 50/50 split. We estimate the upper end of the targeted repurchase price could be ~$30 per share, suggesting buybacks will continue to be the preferred method of returning cash to shareholders.
- **IMO:** Imperial has suggested that it plans to complete its recently renewed NCIB by the end of October. This suggests the company could be in the market, maximizing its repurchase of stock. Given the timing of the now announced disposition of XTO's Canadian assets in late-Q3 or early-Q4, we estimate Imperial could have up to ~$7 billion of available cash to pursue another SIB. Historically, the company has returned (via special dividend) proceeds received during an asset sale. We will continue to watch for commentary around use of proceeds.
- **MEG:** MEG has reduced outstanding debt by ~US$700 million year-to-date including ~US$379 million repaid in the second quarter. The company has also purchased for cancellation 7.24 million shares. We continue to expect MEG to focus on decreasing outstanding leverage while also layering in cash returns to shareholders. On strip, we expect the company to reach its net debt targets of US$1.2 billion in Q1/23 and US$600 million in H2/25. Upon reaching its targets, MEG plans to increase FCF allocation percentage towards shareholders to 50% and 100%, respectively.
- **OVV:** We have recently seen a round of licenses for the BC Montney come through the regulatory system. While there have been indications that applications have been moving (slowly) forward, this will help Ovintiv in moderating the number of 100% working interest

wells it looks to develop in H2/22 (one of the reasons capital spending increased earlier this year). On strip, we estimate free cash flow could be ~US$2.3 billion this year, suggesting the company could reach its US$3.0 billion net debt target in Q4/22.

- **SU:** Suncor is continuing a fairly heavy turnaround program in Q3/22 in which we see downtime at both upgraders and Syncrude. Our focus for the company will be around the search for a new CEO and the potential results of process on its retail gasoline station network. On share buybacks, we believe the company will show an accelerated pace and could complete its 10% NCIB by year-end 2022 on strip pricing. Further, this pace could be accelerated if additional asset sales (like the UK North Sea) are completed.

Changes To Estimates

We have made changes to our estimates to incorporate Q2/22 results; a summary of company-specific model changes is highlighted in the tables in Exhibits 11 and 12. The table in Exhibit 11 highlights our 2022 and 2023 production and capex estimates in comparison to consensus.

- **CNQ:** We have adjusted 2022 production based on 2022 Q2 performance and updated capex guidance. Our 2022E CFPS decreased and 2023E CFPS increased on the back of an adjusted higher realized price partially offset by higher operating costs. We also adjusted our price target to $85.00 from $95.00, driven by higher inflationary impact on costs.
- **CVE:** We have downwardly adjusted 2022 production and upwardly adjusted 2023 production. We also increased downstream capex for both 2022 and 2023. As a result, our 2022E and 2023E CFPS estimates decreased to $7.31/share and $10.01/share, respectively. We adjusted our price target to $32.00 from $34.00, driven by costs increase due to inflationary pressures.
- **IMO:** We have downwardly adjusted 2022 production based on 2022 Q2 performance. We upwardly adjusted 2022 and 2023 operating and G&A costs. As a result, our 2022E and 2023E CFPS estimates decrease to $14.69/share and $17.50/share, respectively.
- **MEG:** We have adjusted 2022 estimates based on 2022 Q2 performance and revised production and costs guidance, resulting a higher operating cost and G&A cost for 2022. As a result, our 2022E CFPS estimate decreases to $6.31/share and our 2023E CFPS estimate increases to $4.60/share. We adjusted our price target to $22.00 from $26.00 driven by costs increase due to inflationary pressures.
- **OVV:** We have upwardly adjusted 2022 production based on 2022 Q2 performance. As a result, we increase 2022E CFPS and 2023E CFPS to US$17.78 and US$22.60, respectively. We adjusted our price target to US$60.00 from US$65.00.
- **SU:** We have adjusted 2022 estimates based on 2022 Q2 performance and updated capex guidance. As a result, our estimates for CFPS decrease to $14.05/share and $14.19/share for 2022E and 2023E, respectively.

Exhibit 11: Energy – Large Cap CIBC vs. Consensus, 2022E - 2023E

		2022E Capex ($MM)			2023E Capex ($MM)		
Company	**Rating**	**CIBC**	**Consensus**	**Variance**	**CIBC**	**Consensus**	**Variance**
Canadian Natural Resources	OP	4,914	4,970	-1%	4,785	4,605	4%
Cenovus Energy	OP	3,435	3,407	1%	3,546	3,611	-2%
Imperial Oil	NT	1,481	1,317	12%	1,649	1,551	6%
MEG Energy	NT	370	381	-3%	413	413	0%
Ovintiv	NT	USD 1,817	USD 1,784	2%	USD 1,908	USD 1,958	-3%
Suncor Energy	OP	4,941	4,957	0%	5,103	5,147	-1%

		2022E Production (MBoe/d)			2023E Production (MBoe/d)		
Company	**Rating**	**CIBC**	**Consensus**	**Variance**	**CIBC**	**Consensus**	**Variance**
Canadian Natural Resources	OP	1,311	1,304	0%	1,337	1,350	-1%
Cenovus Energy	OP	803	796	1%	846	814	4%
Imperial Oil	NT	411	416	-1%	441	423	4%
MEG Energy	NT	93	93	-1%	97	99	-2%
Ovintiv	NT	510	504	1%	518	507	2%
Suncor Energy	OP	759	750	1%	807	786	3%

Source: Company reports, FactSet and CIBC World Markets Inc.

Exhibit 12: Energy – Large-cap / Integrated E&P Comps Table, 2021A-2023E

	Rating			Price Target			Risked. NAV		
Company	Current	Previous	Change	Current	Previous	Change	Current	Previous	Change
Canadian Natural Resources	OP	OP		$85.00	$95.00	-11%	$81.17	$78.06	4%
Cenovus Energy	OP	OP		$32.00	$34.00	-6%	$39.03	$39.49	-1%
Imperial Oil	NT	NT		$74.00	$74.00	0%	$78.83	$87.51	-10%
MEG Energy	NT	NT		$22.00	$26.00	-15%	$20.67	$16.21	28%
Ovintiv	NT	NT		US$60.00	US$65.00	-8%	US$63.89	US$78.94	11%
Suncor Energy	OP	OP		$65.00	$65.00	0%	$85.01	$104.44	-19%

	2021A CFPS			2022E CFPS			2023E CFPS		
Company	Current	Previous	Change	Current	Previous	Change	Current	Previous	Change
Canadian Natural Resources	$11.38	$11.38	0%	$16.58	$17.24	-4%	$17.18	$17.06	1%
Cenovus Energy	$3.50	$3.50	0%	$7.31	$7.64	-4%	$10.01	$10.76	-7%
Imperial Oil	$6.33	$6.33	0%	$14.69	$15.44	-5%	$17.50	$18.43	-5%
MEG Energy	$2.43	$2.43	0%	$6.31	$6.63	-5%	$4.60	$4.09	12%
Ovintiv (US$)	US$12.25	US$12.25	0%	US$17.78	US$16.97	5%	US$22.60	US$21.68	4%
Suncor Energy	$6.89	$6.89	0%	$14.05	$15.06	-7%	$14.19	$17.22	-18%

	2021A Production (MBoe/d)			2022E Production (MBoe/d)			2023E Production (MBoe/d)		
Company	Current	Previous	Change	Current	Previous	Change	Current	Previous	Change
Canadian Natural Resources	1,234,903	1,234,903	0%	1,310,871	1,287,371	2%	1,337,233	1,319,733	1%
Cenovus Energy	790,876	790,876	0%	803,490	808,284	-1%	846,054	833,099	2%
Imperial Oil	428,304	428,304	0%	411,003	423,790	-3%	440,796	452,357	-3%
MEG Energy	93,733	93,733	0%	92,750	92,750	0%	96,800	96,800	0%
Ovintiv	533,820	533,820	0%	510,123	501,244	2%	517,559	509,314	2%
Suncor Energy	731,667	731,667	0%	759,290	760,364	0%	806,749	826,323	-2%

	2021A CAPEX ($MM)			2022E CAPEX ($MM)			2023E CAPEX ($MM)		
Company	Current	Previous	Change	Current	Previous	Change	Current	Previous	Change
Canadian Natural Resources	$4,868	$4,868	0%	$4,914	$4,269	15%	$4,785	$4,266	12%
Cenovus Energy	$2,563	$2,563	0%	$3,435	$3,273	5%	$3,546	$3,327	7%
Imperial Oil	$1,108	$1,108	0%	$1,481	$1,471	1%	$1,649	$1,720	-4%
MEG Energy	$331	$331	0%	$370	$390	-5%	$413	$373	11%
Ovintiv	US$1,519	US$1,519	0%	US$1,817	US$1,817	0%	US$1,908	US$1,798	6%
Suncor Energy	$4,555	$4,555	0%	$4,941	$4,789	3%	$5,103	$4,800	6%

	2021A % Liquids			2022E % Liquids			2023E % Liquids		
Company	Current	Previous	Change	Current	Previous	Change	Current	Previous	Change
Canadian Natural Resources	77%	77%	0%	73%	74%	-1%	74%	75%	-1%
Cenovus Energy	81%	81%	0%	81%	81%	0%	80%	80%	0%
Imperial Oil	95%	95%	0%	96%	95%	1%	97%	96%	1%
MEG Energy	100%	100%	0%	100%	100%	0%	100%	100%	0%
Ovintiv	51%	51%	0%	52%	51%	3%	53%	51%	3%
Suncor Energy	100%	100%	0%	100%	100%	0%	100%	100%	0%

Source: Company reports and CIBC World Markets Inc.

Price Target Calculations

Canadian Natural Resources

Our 12- to 18-month price target of $85.00 (from $95.00) is based on 1.1x our RNAV and maps to a 2023E EV/DACF multiple of 5.0x and FCF yield of 15.9% on our base price deck, including current net debt of $12.6B, including leases.

Cenovus Energy

Our 12- to 18-month price target of $32.00 (from $34.00) is based on 0.8x our RNAV and maps to a 2023E EV/DACF multiple of 2.9x and FCF yield of 26.8% on our base price deck, including current net debt of $6.6B, including leases.

Imperial Oil

Our 12- to 18-month price target of $74.00 is based on 0.9x our RNAV and maps to a 2023E EV/DACF multiple of 3.7x and FCF yield of 21.0% on our base price deck, including current net debt of ($0.3)B, including leases.

MEG Energy

Our 12- to 18-month price target of $22.00 (from $26.00) is based on 1.1x our RNAV and maps to a 2023E EV/DACF multiple of 4.9x and FCF yield of 15.2% on our base price deck, including current net debt of $1.9B, including leases.

Ovintiv

Our 12- to 18-month price target of US$60.00 (from US$65.00) is based on 0.8x our RNAV and maps to a 2023E EV/DACF multiple of 2.7x and FCF yield of 25.5% on our base price deck, including current net debt of US$3.7B, including leases.

Suncor Energy

Our 12- to 18-month price target of $65.00 is based on 0.8x our RNAV and maps to a 2023E EV/DACF multiple of 4.6x and FCF yield of 16.4% on our base price deck, including current net debt of $12.2B, including leases.

Key Risks To Price Targets

Canadian Natural Resources

If commodity prices were to decline sharply, especially for sustained periods of time, Canadian Natural’s revenue, cash flows and financial flexibility would become more challenged. And while the company typically engages in some form of financial hedging to protect against these risks, the platform tends to be fairly under-hedged and exposed to commodity price fluctuations.

Cenovus Energy

If commodity prices were to decline sharply, especially for sustained periods of time, Cenovus’ revenue, cash flows and financial flexibility would be materially challenged. A large portion of Cenovus’ existing production comes from the oil sands within the WCSB. If pipeline takeaway became an issue, the company could be subject to wider-than-normal price differentials. In addition to the aforementioned company-specific and commodity macro risks, there is rising risk around GHG legislation for the oil sands and other upstream production.

Imperial Oil

If commodity prices were to decline sharply, especially for sustained periods of time, Imperial Oil’s revenue, cash flows and financial flexibility would become more challenged. And while the company typically engages in some form of financial hedging to protect against these

risks, the platform tends to be fairly under-hedged and exposed to commodity price fluctuations.

MEG Energy

If commodity prices were to decline sharply, especially for sustained periods of time, MEG's revenue, cash flows and financial flexibility would be materially challenged. And while the company typically engages in some form of financial hedging to protect against these risks, the platform tends to be fairly under-hedged and more exposed to commodity price fluctuations than some of its peer group. All of MEG's existing production comes from the oil sands within the WCSB. If pipeline takeaway became an issue, the company is subject to wider-than-normal price differentials. Rising operating costs and/or any slippage in execution at the company's key Christina Lake oil sands project would also place pressure on the company's operating and financial results. In addition to the aforementioned company-specific and commodity macro risks, there is rising risk around GHG legislation for the oil sands and other upstream production.

Ovintiv

If commodity prices were to decline sharply, especially for sustained periods of time, Ovintiv's revenue, cash flows and financial flexibility would become more challenged. Additionally, continued execution of its drilling program is critical to realizing its communicated growth plans, and any significant cost inflation, type curve degradation or other operational risks could jeopardize them.

Suncor Energy

If commodity prices were to decline sharply, especially for sustained periods of time, Suncor's revenue, cash flows and financial flexibility would become more challenged. And while the company's downstream operations provide some form of a natural hedge to declining crude prices, oil products pricing tends to take hits somewhat in lockstep with commodity price downturns and, thus, would not fully protect the platform.

CIBC Ratings and Price Targets

Ticker	Price	Price Target Prior	Price Target Current	Rating Prior	Rating Current
CNQ-CA	C$75.40	C$95.00	C$85.00	Outperformer	Outperformer
CVE-CA	C$25.86	C$34.00	C$32.00	Outperformer	Outperformer
MEG-CA	C$19.25	C$26.00	C$22.00	Neutral	Neutral
OVV-US	US$55.07	US$65.00	US$60.00	Neutral	Neutral

Source: Company reports and CIBC World Markets Inc.

Changes To CIBC Estimates

Ticker	Earnings Type	FYE	2021 Prior	2021 Current	2022 Prior	2022 Current	2023 Prior	2023 Current
CNQ-CA	CFPS	Dec	C$11.38	C$11.38	C$17.24	C$16.58	C$17.06	C$17.18
CVE-CA	CFPS	Dec	C$3.50	C$3.50	C$7.64	C$7.31	C$10.76	C$10.01
IMO-CA	CFPS	Dec	C$6.33	C$6.33	C$15.44	C$14.69	C$18.43	C$17.50
MEG-CA	CFPS	Dec	C$2.43	C$2.43	C$6.63	C$6.31	C$4.09	C$4.60
OVV-US	CFPS	Dec	US$12.25	US$12.25	US$16.97	US$17.78	US$21.68	US$22.60
SU-CA	CFPS	Dec	C$6.89	C$6.89	C$15.06	C$14.05	C$17.22	C$14.19

Source: Company reports and CIBC World Markets Inc.

Important Disclosures

Analyst Certification: Each CIBC World Markets Inc. research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

Potential Conflicts of Interest: Equity research analysts employed by CIBC World Markets Inc. are compensated from revenues generated by various CIBC World Markets Inc. businesses, including the CIBC World Markets Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets Inc. generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets Inc. generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets Inc. may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

CIBC World Markets Inc. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that CIBC World Markets Inc. may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Analysts employed outside the U.S. are not registered as research analysts with FINRA. These analysts may not be associated persons of CIBC World Markets Corp. and therefore may not be subject to FINRA Rule 2241 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

CIBC World Markets Inc. Stock Rating System

Stock Ratings	Abbreviation	Description
Outperformer	OP	Stock is expected to outperform similar stocks in the coverage universe during the next 12-18 months.
Neutral	NT	Stock is expected to perform in line with similar stocks in the coverage universe during the next 12-18 months.
Underperformer	UN	Stock is expected to underperform similar stocks in the coverage universe during the next 12-18 months.
Tender	TR	Shareholders are advised to tender shares to a specific offer as we do not believe a superior offer will materialize.
Not Rated	NR	CIBC World Markets does not maintain an investment recommendation on the stock.
Restricted	R	CIBC World Markets is restricted (due to potential conflict of interest) from rating the stock.

Sector Ratings	Abbreviation	Description
Overweight	O	Sector is expected to outperform the broader market averages.
Marketweight	M	Sector is expected to equal the performance of the broader market averages.
Underweight	U	Sector is expected to underperform the broader market averages.
None	NA	Sector rating is not applicable.

Note: Broader market averages refer to S&P 500 in the U.S. and S&P/TSX Composite in Canada.

CIBC World Markets Inc. Price Chart

For price and performance charts, please visit CIBC on the web at https://researchcentral.cibccm.com/#/disclaimer-central-new or write to CIBC World Markets Inc., 161 Bay Street, 4th Floor, Toronto, ON M5H 2S8, Attn: Research Disclosure Chart Request.

Important Disclosure Footnotes

For important disclosure footnotes for companies mentioned in this report that are covered by CIBC World Markets Inc., click here: CIBC Disclaimers & Disclosures

Ratings Distribution*: CIBC World Markets Inc. Coverage Universe

(as of 30 Aug 2022)	Count	Percent	Inv. Banking Relationships	Count	Percent
Outperformer	165	53%	Outperformer	165	100%
Neutral	133	42%	Neutral	133	100%
Underperformer	8	3%	Underperformer	8	100%
Tender	3	1%	Tender	2	67%
Restricted	5	2%	Restricted	5	100%

Important disclosures for each issuer can be found by visiting the Research Central website at https://researchcentral.cibccm.com/#/disclaimer-central-new and then entering the issuer name. Access to our research dissemination policy can be found on the same website at https://researchcentral.cibccm.com/#/dissemination-policy. These important disclosures can also be obtained by writing to CIBC World Markets Inc., 161 Bay Street, 4th Floor, Toronto, ON M5H 2S8, Attention: Research Disclosures Request.

Access to CIBC Equity Research

Clients may access CIBC Equity Research online at Research Central at https://researchcentral.cibccm.com/, or at the following research aggregators: Bloomberg, Refinitiv, Capital IQ, and FactSet.

Legal Disclaimer

This report is issued by CIBC Capital Markets.

CIBC Capital Markets is a trademark brand name under which Canadian Imperial Bank of Commerce ("CIBC"), its subsidiaries and affiliates (including, without limitation, CIBC World Markets Inc., CIBC World Markets Corp. and CIBC Capital Markets (Europe) S.A.) provide different products and services to our customers around the world. Products and/or services offered by CIBC include corporate lending services, foreign exchange, money market instruments, structured notes, interest rate products and OTC derivatives. CIBC's Foreign Exchange Disclosure Statement relating to guidelines contained in the FX Global Code can be found at **https://cibccm.com/en/disclosures/fx-disclosure-statement/**. Other products and services, such as exchange-traded equity and equity options, fixed income securities and futures execution of Canadian securities, are offered through directly or indirectly held subsidiaries of CIBC as indicated below.

CIBC World Markets Inc. is a member of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada. In the United States, CIBC World Markets Corp. is a member of the Financial Industry Regulatory Authority and the Securities Investor Protection Fund. In Luxembourg. CIBC Capital Markets (Europe) S.A. (RCS Luxembourg: B236326) is authorised by the European Central Bank (the "ECB") and supervised by the Luxembourg Financial Supervisory Authority (Commission de Surveillance du Secteur Financier) under the oversight of the ECB. CIBC Australia Ltd (AFSL No: 240603) is regulated by the Australian Securities and Investment Commission ("ASIC"). CIBC World Markets (Japan) Inc. is a member of the Japanese Securities Dealer Association. CIBC (TSX/NYSE: CM) is a bank chartered under the Bank Act (Canada) having its registered office in Toronto, Ontario, Canada, and regulated by the Office of the Superintendent of Financial Institutions. CIBC New York Branch is licensed and supervised by the New York State Department of Financial Services. In the United Kingdom, CIBC London Branch is authorised by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Canadian Imperial Bank of Commerce, Sydney Branch (ABN: 33 608 235 847) is an authorised foreign bank branch regulated by the Australian Prudential Regulation Authority (APRA). Canadian Imperial Bank of Commerce, Hong Kong Branch is a registered institution under the Securities and Futures Ordinance, Cap 571, and a limited liability foreign company registered with the Hong Kong Companies Registry. Canadian Imperial Bank of Commerce, Singapore Branch is a wholesale bank licensed and regulated by the Monetary Authority of Singapore.

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund and (b) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority ("FINRA"). U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer). CIBC World Markets Corp. accepts responsibility for the content of this research report.

Distribution to Institutional Customers Only

Canada

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets Inc. in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited.

Legal Disclaimer (Continued)

United States

This report is provided, for informational purposes only, to Major US Institutional Investor clients of CIBC World Markets Corp. in the United States, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited.

United Kingdom

The distribution of this report in the United Kingdom is being made only to, or directed only at, persons falling within one or more of the exemptions from the financial promotion regime in section 21 of the UK Financial Services and Markets Act 2000 (as amended) ("FSMA") including, without limitation, to the following:

- authorised firms under FSMA and certain other investment professionals falling within article 19 of the FSMA (Financial Promotion) Order 2005 ("**FPO**") and directors, officers and employees acting for such entities in relation to investment;
- high value entities falling within article 49 FPO and directors, officers and employees acting for such entities in relation to investment; and
- persons who receive this presentation outside the United Kingdom.

The distribution of this report to any other person in the United Kingdom is unauthorised and may contravene FSMA. No person falling outside such categories should treat this report as constituting a promotion to them or rely or act on it for any purposes whatsoever.

This report is distributed solely to eligible counterparties or professional clients and not retail clients as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018.

All other jurisdictions

This report is distributed solely to institutional clients and not retail clients as defined by the applicable securities legislation and regulation to which CIBC Capital Markets may be subject in any jurisdiction, and only in compliance with all applicable laws and regulations.

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Legal Disclaimer (Continued)

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change without notice.

Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Although each company issuing this report is a wholly owned subsidiary of CIBC, each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation (“FDIC”), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. CIBC Capital Markets and the CIBC Logo Design are trademarks of CIBC, used under license.

© 2022 CIBC World Markets Inc., CIBC World Markets Corp. and CIBC Capital Markets (Europe) S.A. All rights reserved. Unauthorised use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.