ENERGY & INDUSTRIAL VALUATION REPORT

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Student Managed Investment Fund

Professor Yi Feng

Energy Sector Overview

Sector Overview and Performance

The energy sector has a unique method of operation compared to other industries. There are several of macroeconomic factors that influence companies that operate within the energy sector compared to companies that operate in other sectors. Some factors include the fluctuation in oil and gas prices particularly for those companies that engage in the exploration, production and refining as well as the environmental concerns regarding sustainability due to government pressures demanding cleaner and effective energy solutions. All in all, the energy sector is a difficult yet interesting industry to research upon.

The SMIF portfolio currently holds three companies that fall into the energy industry. These investments account for 10.1% of the total portfolio with a total market value of $58,149. The three companies that the SMIF portfolio holds are: Enbridge Inc. (TSX: ENB) which is 2.4% of the fund's total holdings, ConocoPhilips (TSX: COP) which is 3.5% of the fund's total holdings, and Cameco Corp. (TSX: CCO) which is 4.2% of the fund's total holdings.

Energy Sector Portfolio Thesis Recap

Enbridge Inc. (TSX: ENB)

- **Thesis 1: Low-Risk Business Model:** Enbridge maintains a low-risk business model supported by several key facts. The company consistently generates steady cash flows, showcasing resilience even during periods of macroeconomic uncertainty. With a Debt-to-EBITDA ratio of 4.6x, Enbridge maintains a strong balance sheet and financial flexibility. Its recent debt offering of US$3.0 billion, including the issuance of US$2.3 billion in sustainability-linked bonds, reflects market confidence in Enbridge's creditworthiness and commitment to environmental sustainability. The company's secured growth program, valued at approximately $17 billion, highlights its ongoing investments in infrastructure expansion. Enbridge's focus on financial discipline is evident through share repurchases, demonstrating a commitment to increasing capital returns for shareholders. By adhering to its low-risk model, Enbridge ensures excess investment capacity is available for future growth, creating value for its shareholders.
- **Thesis 2: Strong Dividend Policy:** The dividend declaration by the company highlights its commitment to maintaining a strong dividend policy. On May 2, 2023, the Board of Directors announced the quarterly dividends for various classes of shares. This includes an increase in the quarterly dividend per common share by 3.2% to $0.8875, effective from March 1, 2023. The company's emphasis on providing consistent and growing dividends to its shareholders demonstrates its confidence in its financial performance and ability to generate sustainable cash flows.
- **Thesis 3: Diversified Energy Infrastructure:** Enbridge continues to strengthen its position as a leader in the energy industry through strategic acquisitions that enhance its diversified infrastructure. In May 2023, the company announced its agreement to acquire a 93.8% interest in Aitken Creek from FortisBC, further expanding its integrated value chain. Aitken Creek, located in British Columbia, is strategically connected to multiple pipelines, including BC Pipelines, Alliance Pipeline, and North Montney Mainline Pipeline. It will also be linked to LNG Canada through Coastal GasLink, adding to Enbridge's comprehensive network. With a current working gas capacity of approximately 77 Bcf, Aitken Creek provides Enbridge with increased storage capabilities and strengthens its presence in the region. Additionally, Enbridge recently completed the acquisition of Tres Palacios Holdings LLC, a natural gas storage facility in the US Gulf Coast. Tres Palacios' infrastructure serves various purposes, including supporting Texas gas-fired power generation, liquefied natural gas exports, and Mexico pipeline exports. It consists of three natural gas storage salt caverns with a total FERC-certificated working gas capacity of about 35 Bcf, along with a well-connected 62-mile natural gas header pipeline system. These acquisitions highlight Enbridge's commitment to building a diversified infrastructure portfolio, enabling

the company to capitalize on different sectors of the energy market and creating opportunities for long-term growth and stability.

ConocoPhilips (TSX: COP)

- **Thesis 1: Rigorous Framework and Strategy for Capital Allocation**: Conoco continues to have a strong outline for their capital allocation. The company is committed to a more disciplined reinvestment rate by implementing a strategy reset to having around a 50% 10-year reinvestment rate. In addition, the company has a slight competitive edge in regard to their cost of supply with having <$40/BBL WTI oil price in order to achieve a point-forward 10% return. Finally, Conoco expects to have $155B free cash flow in the next 10 years with crude oil at the price of $60/BBL WTI. This free cash flow gives the company more room and flexibility with their capital allocation.
- **Thesis 2: Diversified and Differential Portfolio Leading to Depth and Durability:** Conoco has 20 BBOE of resource at the cost of under $40 BBL with an average cost of $32/BBL amongst all of their portfolios. The company has a diverse production base with operations in Canada, Alaska and Asia Pacific which decreases risk and opportunities to fail. Conoco has a strong track record in their portfolio management with resource life increasing to 30 years in 2022 from 18 years in 2016.
- **Thesis 3: Significant Role in the Energy Transition Space:** The company is currently accelerating in their GHG-intensity reduction until the year of 2030. Conoco has paved a pathway to net-zero emissions through implementing a zero routine flaring system by 2025. The company also is increasing their GHG intensity to 50%-60% from previously 35% which allows the company to work and function more effectively and efficiently.

Cameco Corp. (TSX: CCO)

- **Thesis 1: Supply and Demand:** As a result of the current Russian-Ukrainian war, uranium prices have skyrocketed due to sanctions against Russia. Before the sanctions Russia produced upwards of around 10% of the world's uranium, with this source now being cut off, countries are turning to more reliable sources such as Canada. Cameco Corp being a Canadian based company currently owns mining operations across some of the richest deposits of uranium, which includes the McArthur River and Cigar Lake. Given the well-developed operations that Cameco has, this has allowed the company to capitalize on the increased demand of uranium, with Ukraine being a notable customer.
- **Thesis 2: Healthy Financials:** Given the current Macroeconomic situation, for a company to remain resilient they need to have strong financials. Cameco currently has $1b in undrawn revolvers, and an additional $600m in cash, giving them up to $1.6b cash and equivalents. The company has around $1.1b in long-term debt. This provides a reason guardrail against macroeconomic factors that are currently happening.
- **Thesis 3: Long-term contracts:** As mentioned before, Cameco has entered into a deal with Ukraine which aims to export uranium hexafluoride up to $4b. This contract alone is expected to begin from 2024-2035, in Cameco's 2022 annual report, they expected to add 80 million pounds worth of uranium contract (of these 58 million pounds have been finalized), this has been considered as a record for the company. Coupled with the expansion of their current pipelines in operations near McArthur River, Cameco is expected to fulfill these contracts by adding up to 18 million pounds per year alone at this facility, providing even greater output.

Energy Sector Portfolio Thesis Recap

Enbridge Inc. (TSX: ENB)

Enbridge Inc. (TSX: ENB) Q1 2023 earnings were as expected by most observers. The company was able to display strong earnings. Enbridge's YOY performance is expected to increase adjusted EBITDA by 8%, DCF/share by 3%, and maintain a Debt/EBITDA ratio of 4.6X. In addition, several contracts were awarded to Enbridge, the most notable being an offshore contract in Norway to have the right to build a wind farm with the capacity to generate 1 GW. While earnings are a good indicator for the company financially, legal issues over the disputed line 5 have caused negative sentiment towards the company. The dispute results from the line running through native reserves, which if a leak were to occur would result in the natives taking the brunt of it.

ConocoPhilips (TSX: COP)

In the first quarter, ConocoPhillips produced remarkable results that set a new production record for the firm and the Lower 48 region. The overall gain in production was 4% year over year, with the Lower 48 showing a noteworthy 8% year over year expansion. The company has increased the midpoint of its full-year production guidance, demonstrating confidence in their prospects for the future. ConocoPhillips achieved adjusted earnings of $2.38 per share in the first quarter of 2023. Due to the successful completion of projects across their entire portfolio, this period also saw a record-breaking production of 1,792,000 barrels of oil equivalent per day. Additionally, the anticipated turnarounds in Qatargas 3 and the successful completion of the Eagle Ford stabiliser expansion helped to achieve this goal.

Cameco Corp. (TSX: CCO)

It has been reported from 2023 first quarter net earnings were $119 million. The adjusted amount is $115 million. In 2022 it has been seen their net earnings was $40 million and adjusted was $17 million. This highlights the company has significantly improved their performance. The notable boost in profitability is seen through the higher deliveries and realized higher prices that can be sold in uranium and fuel segments. The uranium segment average realized prices have been raised 11% and fuel services prices increased by 9% from the previous year during the same period. The company had 9.7 million pounds of uranium delivered during the first quarter which was what was expected to be the numbers in the fourth quarter. The company expects 20.3 million pounds of production in 2023 (our share). The company mining operations McArthur River/Key Lake have made good progress with 3.4 million pounds of uranium produced within the first quarter. The company plans to continue to have their productions match their contract portfolio and customer needs in order to have this high profitability and be a long-term sustainable company. Cameco has a partner with Jv Inkai and Kazatomprom which helps ship production with the Trans-Caspian International Transport Route. In order to mitigate the risk if the delivery of the shipments take longer than expected the company has an inventory where there are long-term purchase agreements and loan arrangements that the company can draw on.

Company	Ticker	Price	Weight	$MV	Beta	P/EPS	EV/EBITDA	Target Price			Recommendation
								Bear	Base	Bull	
Cameco Corp.	CCO	$167	4.2%	$24,101	1.73	41.6x	25.7x	$166	$174	$184	Hold
ConocoPhilips	COP	$70	3.5%	$20,135	0.88	8.3x	4.1x	$69	$74	$83	Hold
Enbridge Inc.	ENB	$285	2.4%	$13,913	0.86	17.1x	11.8x	$267	$283	$290	Hold

Sector Outlook

This update provides information on the energy stock sectors, specifically focusing on three areas: oil and gas exploration and production, oilfield services, and renewable energy. The main trends, drivers, and challenges that affect these sectors will be discussed.

Oil and Gas Exploration and Production: Oil and gas exploration and production businesses have long been significant actors in the world energy industry. Their performance is reliant on variables such as world oil and petrol prices, estimated reserves of natural commodities, and current international affairs. They do, however, confront certain difficulties. In addition to mounting regulatory pressure and a growing focus on renewable energy, conventional oil and gas supplies are depleting. The fluctuating price of oil on the international market has an impact on the profitability of these businesses. Additionally, as we shift to greener energy sources and work to minimise carbon emissions, corporations that produce fossil fuels are subject to increased scrutiny, which affects long-term investment decisions.

Oilfield Services: By providing services like drilling, equipment leasing, and maintenance, oilfield services firms benefit the oil and gas industry significantly. The quantity of drilling activity and the amount of capital invested by oil and gas businesses affect their performance. Depending on the price of oil, there is a rise or fall in demand for their services. These businesses continuously enhance their processes by using new technologies and higher-quality equipment, which increases their efficiency and lowers costs. As a result of environmental worries and an emphasis on issues like social responsibility and accountability, there is also a discernible trend towards adopting more sustainable practises and technologies.

Renewable Energy: Companies that generate and distribute energy from sources like the sun, wind, water, and geothermal heat are categorised as part of the renewable energy sector. The global quest for cleaner energy and pollution reduction has given this industry a boost in importance. The development of businesses involved in renewable energy is significantly influenced by government policies and incentives. Adopting renewable energy technology like solar cells and wind turbines is now more affordable than using conventional energy sources. But there are obstacles to overcome. The availability of renewable energy sources varies, making their integration into current electrical grids challenging. In addition, large financial outlays are needed to create the distribution and generation systems for renewable energy.

Industrial Sector Overview

Sector Overview and Performance

The industrial sector consists of a wide range of companies that provide essential services, infrastructure, and goods. Due to rapid increase of technological advancements, the industrials sector seems to shape an attractive landscape for long-term investors. This sector plays a vital role for global economic growth and infrastructure development. Key drivers for this industry include the optimization of global supply chain growth, sustainable and clean technology, and waste management.

The SMIF portfolio currently holds three companies that fall into the industrials industry. These investments account for 9.9% of the total portfolio with a total market value of $57,655. The three companies that the SMIF portfolio holds are: Waste Connections Inc. (TSX: WCN) which is 3.8% of the fund's total holdings, Lockheed Martin Corp. (NYSE: LMT) which is 3.6% of the fund's total holdings, and Canadian National Railway (TSX: CNQ) which is 2.5% of the fund's total holdings.

Industrial Sector Portfolio Thesis Recap

Waste Connections Inc. (TSX: WCN)

- **Thesis 1: Deployment of Sustainability Projects:** The business intends to implement a number of sustainability initiatives, such as RNG (renewable natural gas) facilities. Later this year, one of the RNG facilities will be operational. In 2026, it is expected that the growth of these RNG facilities will increase EBITDA by $200 million. These development initiatives give the business the ability to control its capital allocation strategy and raise EBITDA margins. As many of these facilities are already in the production pipeline, Waste Connections intends to construct additional RNG plants in order to boost sustainability.
- **Thesis 2: Significant M&A opportunities:** There is a lot of M&A activity since both buyers and sellers of high-caliber waste management companies are very interested in doing business. Although Waste Connections Inc. has historically generated about $45 million in yearly revenue, their capital allocation objectives have remained constant. The business intends to buy smaller businesses that can be advantageous in terms of their effectiveness. Thus, the shortcomings that the business is presently dealing with can be reduced in terms of efficacy.
- **Thesis 3: Consistent Demand in Business Model:** The company has a unique yet simple business model which requires a sense of consistent demand. From a macroeconomic point of view, the need for waste collection and distribution will remain needed due to the significant usage of waste. The company's business model has been the same for the past 25 years and continues to lead in the waste collection space.

Canadian National Railway (TSX: CNQ)

- **Thesis 1: Strong Financial Performance**: CN's financial results for the first quarter of 2023 demonstrate impressive growth and financial strength. The company achieved record revenues, operating income, and diluted earnings per share, with significant increases compared to the same period in 2022. The improved operating ratio and positive free cash flow further highlight CN's financial resilience and efficiency. With a solid financial foundation, CN is well-positioned for continued growth and profitability.
- **Thesis 2: Operational Excellence and Efficiency**: CN's operating performance during the first quarter of 2023 showcased its commitment to operational excellence. The company reported notable improvements in key operational metrics, including injury frequency rate, accident rate, car velocity, through network train speed, and through dwell. These achievements reflect CN's dedication to maintaining a safe and efficient rail network. Additionally, the record fuel efficiency highlights the company's focus on sustainability and environmental responsibility.
- **Thesis 3: Positive Outlook and Growth Potentia**l: Based on its strong first-quarter results, CN has raised its financial outlook for 2023, expecting mid-single-digit adjusted diluted EPS growth compared

to the previous target of low single digits. This upward revision demonstrates CN's confidence in its ability to capitalize on market opportunities and drive sustained growth. With a solid track record, a diverse customer base, and ongoing investments in infrastructure and technology, CN is well-positioned to expand its market presence and deliver long-term value to its shareholders.

Lockheed Martin Corp. (NYSE: LMT)

- **Thesis 1: Ukraine-Russian War Performance:** As the Ukrainian-Russian War enters its 1.5-year anniversary, Ukraine has become more embedded with western technology. The most notable being the Javelin, supplied in the thousands, this weapon designed by Lockheed Martin Corp has been a game changer in the war blunting the Russian Invasion. Which has caught the attention of many countries noting the performance. As geopolitical tensions continue to rise, it is expected that most countries will resort to what is proven, where Lockheed can capitalize.
- **Thesis 2: Government Contracts:** As mentioned above, the Ukrainian-Russian war has caused a lot of countries to purchase American arms most notably from Lockheed. For example, Taiwan recently awarded a contract to Lockheed for the procurement of over 29 HIMARS and ammunition delivered over the span of 2 years. Poland has also purchased 18 HIMARS worth $440m. In addition, the current Ukraine Security Assistance Initiative provides the US with funds to purchase directly from the manufacturer instead of using its own stockpile. Recently a $2B aid package was announced by the US which included air defense missiles produced by Lockheed.

Energy Sector Portfolio Thesis Recap

Waste Connections Inc. (TSX: WCN)

Waste Connections Inc. released its Q1 2023 financial results. It was stated that it was difficult to compare Q1 year over year due to the steep fall in resource recovery values anticipated in the second half of 2022. Weather-related effects on landfill volumes and solid waste roll-off activity, notably on the West Coast, had an influence on the results for the quarter. A rise from $1.646 billion in the same quarter last year to $1.901 billion in revenue in Q1. Operating income for the first quarter of 2017 was $314.7 million, which included transaction-related costs, impairments, and other operating factors totaling $4.3 million. Operating income for the first quarter of 2022 was $273.9 million, which included $6.6 million in transaction-related costs. $197.8 million was the quarter's net income, or $0.77 per dilutive share (258.0 million shares).

Canadian National Railway (TSX: CNQ)

Canadian National Railway (TSX: CNR) Q1 2023 was a surprise to most investors with CNR recording record revenues compared to the previous quarter last year, reporting a total of $4,313M, an increase of 16%. This revenue increase was due to record imports by Canada during the beginning of 2023. While much of this is a surprise due to the current macroeconomic situation, CNR has remained realistic on its outlook, projecting an overall decrease in North American industrial production. To continue supporting the growth of its operations CNR has invested in its capital program which aims to bolster organic growth, improving operations in their railroads through efficiency, safety and integrity. Despite current macroeconomic factors CNR is poised to remain strong through their healthy financials and growth strategies.

Lockheed Martin Corp. (NYSE: LMT)

The company had net earnings of $1.7 billion in the first quarter of 2023 which during the year had net sales of $15.1 billion. In the 2022, first quarter the company had $15.0 billion cash sales and still net earnings of $1.7 billion. This highlights the company is making stable progression as its cash sales and net earnings did increase a bit compared to the previous year. The company prioritizes its ability to deliver performance and value its shareholders. Some of the achievements made during the quarter included securing a contract for the United States' first sea-based hypersonic missile program, delivering the first F-16 fighter aircraft from its new South

Carolina factory, and being selected to provide 88 F-35 fifth-generation fighter aircraft to Canada. For the company to stay successful in terms of its financial performance, they stated they will continue to focus on returning capital to shareholders through repurchases and dividends. Lockheed wants to integrate digital technology and mission-based solutions. They aim to elevate the deterrence posture of the United States and its allies. The company has 4 main segments which are aeronautics, rotary and mission systems, space, and missiles and fire control. The total net sales have increased, currently it is $15,126 million in 2023 compared to 2022 where it is $14,964 million. This shows that these segments are contributing successfully to the overall portfolio of the company. Some risks and uncertainties the company might face are budget uncertainty and government funding, contract terms and negotiations, program risks, delivery timing, policy changes, and some external factors like covid-19. As mentioned earlier, the company focuses, they hope it can help fix these issues in the long-term.

Company	Ticker	Price	Weight	$MV	Beta	P/EPS	EV/EBITDA	Target Price			Recommendation
								Bear	Base	Bull	
Lockheed Martin Corp.	LMT	$462.7	3.6%	$21,107	0.38	17.1x	13.2x	$444	$475	$490	Hold
Waste Connections Inc.	WCN	$135.8	3.8%	$22,196	0.50	31.2x	16.3x	$122	$136	$145	Hold
Canadian National Railway	CNR	$114.4	2.5%	$14,352	0.83	19.0x	12.9x	$97	$112	$126	Hold

Sector Outlook

This sector outlook provides an update on the industrial stock sectors, focusing on key areas such as manufacturing, infrastructure, transportation, and engineering. The analysis aims to highlight recent trends, drivers, and challenges impacting these sectors.

Manufacturing: The manufacturing sector is essential to economic growth and is influenced by a variety of variables, including supply chain dynamics, technical advancements, and global demand. Consumer goods, electronics, automotive, and aerospace are important manufacturing subsectors. Although the COVID-19 epidemic caused some industry disruptions, the relaxation of limitations has led to an overall recovery. Manufacturing processes are changing as a result of the expansion of automation and digitization, resulting in higher productivity and efficiency. However, difficulties like supply chain interruptions, a lack of raw materials, and geopolitical concerns continue.

Infrastructure: Businesses engaged in developing and maintaining vital physical structures, such as transportation networks, utilities, and buildings, are included in the infrastructure sector. Population growth, economic conditions, and governmental policies all have an impact on infrastructure spending. Construction, engineering, utilities, and real estate are significant subsectors. Modernization, urbanisation, and sustainable development needs drive infrastructure investments. The expansion of the sector is influenced by elements such growing public-private partnerships, government stimulus programmes, and changing environmental rules. The performance of the sector, however, may be jeopardised by issues like funding shortages, project holdups, and regulatory obstacles.

Transportation: Businesses involved in the movement of goods and people are included in the transportation sector. Examples include railroads, shipping corporations, airlines, and shipping lines. Fuel prices, volume of international trade, and passenger demand are a few examples of factors that affect how well transportation stocks perform. During the pandemic, the industry was severely disrupted, but as travel restrictions loosen, a slow recovery is predicted. The future of the industry is being shaped by trends including the expansion of e-commerce, sustainability programmes, and technology developments (such electric automobiles). But there are obstacles to overcome, like fluctuating fuel prices, legislative changes, and infrastructure constraints.

Toronto Metropolitan University

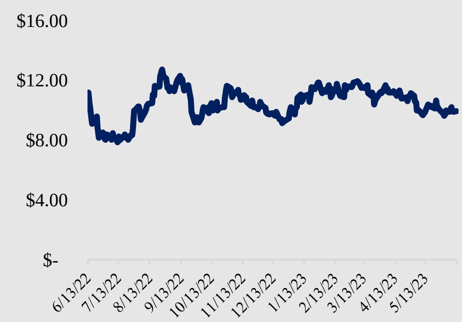
Ted Rogers School of Management

Student Managed Investment Fund Surveillance Report

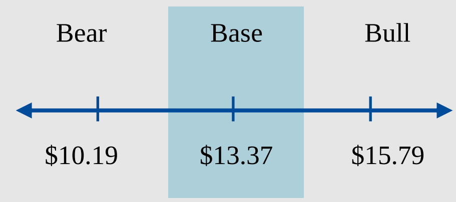
Share Price:	**$11.24**
Recommendation:	**BUY**
Target Price:	**$13.37**
Upside/(Downside):	**26.9%**
Market Cap (MM):	**$1,364**
Shares Outstanding (MM):	**123**
Dividend Yield:	**5.4%**
Asking Portfolio Weight:	**0.5%**

Source: Capital IQ

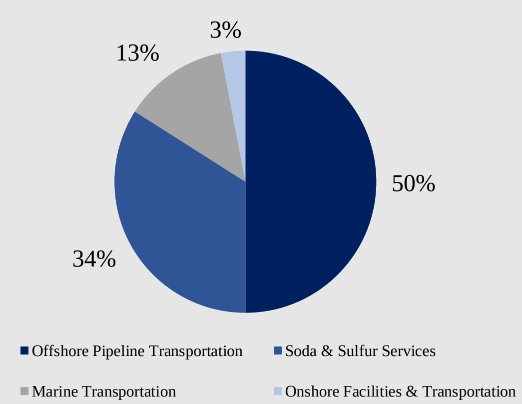
Stock Price Performance (Year)



Scenario Analysis



Business Segments



EXECUTIVE SUMMARY

Recommended Buy for Genesis Energy

This report provides an analysis of Genesis Energy. The report will examine the company's fundamentals, and its positioning relative to industry peers and will analyze the company using various valuation methods to achieve an implied target price.

Company Overview

Genesis Energy is a master limited partnership that is based in Houston, Texas. It is known to operate in the midterm energy sector. The company mainly focuses its operations on the Gulf Coast region of the US which includes Texas, Louisiana, Arkansas, Mississippi, Alabama, Florida, Wyoming, and Gulf of Mexico. The company was founded in 1996. The company focuses on being flexible and responsive. Their business strategies also include prioritizing reigning its operations, providing support to huge oil developments and big energy companies. The company goal focuses on wanting to have a high growth rate in its distributions and increase their coverage and conservative leverage ratio without losing their core competencies such as their strong commitment to being safe, responsible, and reliable.

Business Segments

Offshore pipeline transportation

This business segment deals with providing infrastructure to move oil and natural gas from reservoirs in the Gulf of Mexico to refining centers in Texas and Louisiana. In mid-April, the company started receiving volumes from the Argos Production facility, which supports BP, Chevron, and Woodside Petroleum in the development of the Mad Dog 2 field (which is an offshore oil field in the Green Canyon area in the Gulf of Mexico).

Sodium minerals and sulfur services

This business segment focuses on various activities such as mining, processing, producing, marketing, and selling trona and trona-based exploration. Trona is raw material that is refined into soda ash, which in turn is used to make products like glass, paper and much more. In the 2023 Quarter there was a 2% decrease in soda ash and NaHS (Sodium Hydrosulfide) volumes sold compared to the 2022 Quarter. The decrease in the Segment Margin was mostly offset by higher export and domestic pricing in the company's Alkali Business which is the manufacturing and processing facilities for soda ash. As a result of the global economic recovery and the continued application of soda ash in everyday end use products, including solar panels, and in the production of lithium carbonate and lithium hydroxide, which are some of the building blocks of lithium batteries that are expected to play a large role in the anticipated energy transition.

Onshore Facilities and Transportation

The onshore facilities and transportation division deals with the transportation, handling, blending, storage and supply of energy products including crude oil and refined products into refinery centric demand centers. This segment owns and/or leases onshore crude oil and infrastructure such as pipelines, terminals, trucks, railcars, and rail loading and unloading facilities. The company uses those assets combined with other modes of transportation owned by third parties to serve the customers and the company's operations. In the 2023 Quarter, onshore facilities and transportation segment margin decreased by 23%. This decrease is due to a decrease in volumes on the Texas and Jay pipeline systems and a decrease in rail unload volumes. The decrease was partially offset by an increase in pipeline and terminal volumes associated with our assets in the Baton Rouge corridor.

Marine Transportation

This segment controls the maritime transportation of petroleum products. This operation prioritizes selling refineries and storage terminals mostly in the Gulf Coast, East Coast, Canada, Great Lakes, Intracoastal Canal and western rivers in the United States. In 2023 they made a profit of $25,694 thousand and in 2022 $12,137 thousand. There was an increase of $13.6 million or 112% compared to 2022. The main reason for this increase is because of the high utilizations and day rates in their inland and offshore business. For instance, it has been reported their utilization rate is about 100% of available capacity for all their classes of vessels. The company continues to see an increase in their demand which increases the utilization of their vessels and sees the increased need from the Gulf Coast to the East Coast for certain products.

Profit

The overall profit the segment's margin contributed to the company's success in 2023 is $195,129 thousand and in 2022 it was $157,452 thousand. The company has a revenue of $790,612 thousand in 2023 and in 2022 it was $631,947. The drive to increase revenue growth is seen through the segments and the increase of profitability, The company does have a net loss which is impacted primarily because of increasing operating income because of the segment margin. There's unrealized loss, increase in depletion, and amortization expense, increase in interest expense.

Industry Overview

Geopolitical Factors

Currently the Oil industry has been lucrative since the Russian-Ukraine war broke out, with the sector experiencing some of the best revenues. While clean energy remains a concern for the long term, the supply and demand issues after the sanctioning of Russia has exacerbated underinvestment in domestic production. Many countries relied on OPEC or Russia for their oil previously. With sanctions against Russia, and OPEC operating in their own interests, countries are finding it difficult to transition to a more stable source. Given this dilemma it is expected that companies who have well established operations in the oil industry will continue to profit.

Financials

As a direct result of the supply and demand issues resulting from Russian-Ukrainian war, many oil companies enjoyed strong cash flows in 2022, resulting in a healthy balance sheet moving into 2023. This provides an opportunity for many companies to safeguard themselves against current macroeconomic factors such as recession worries by focusing on organic growth.
In addition, further incentive by governments to push forward oil infrastructure could result in the industry enjoying another year of success.

Future outlook

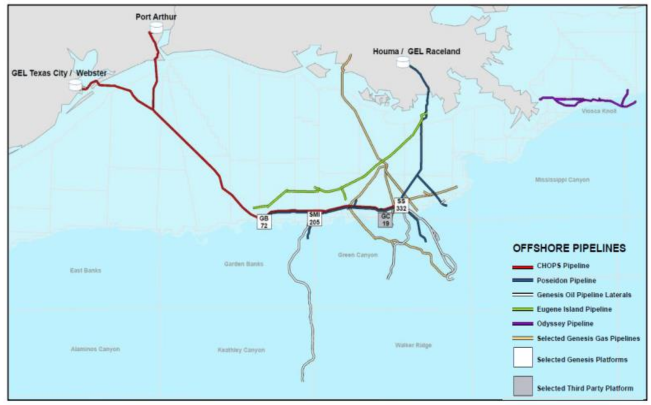
As recession fears are causing consumer demand for oil to drop, this may impact companies operating in the sector in the short term. The long-term problem resides in environmental and sustainability challenges. Many companies have gone under scrutiny for environmental damage, and as a result tougher penalties from the government. This has caused a call for an overall reduction in production of fossil fuels, which impacts the industry severely as the already competitive industry restricts companies from further market penetration and growth. To combat this many companies have started the transition to cleaner energy providing better opportunities for the future and more stability. For companies solely in the oil industry without diversification, it is expected that the industry will peak within the next 5 years, then slowly decline. For companies that aim to diversify into clean energy renewable energy they will enjoy a much brighter future.

Investment Thesis I: Growing Position in the Energy Industry

Genesis Energy, L.P. is a midstream energy company engaged in the transportation, storage, and supply of energy products. The company operates in three segments: Offshore Pipeline Transportation, Soda and Sulfur Services, and Onshore Facilities and Transportation. Genesis Energy's financial statements for the three months ended March 31, 2023, show positive revenue growth compared to the same period in the previous year. Despite reporting a net loss attributable to common unitholders, the company has demonstrated stability and resilience in its operations.

- Revenue Growth: Genesis Energy has experienced a significant increase in revenues, with $790.6 million reported for the first quarter of 2023, compared to $631.9 million in the same period in 2022. This growth can be attributed to higher volumes in the Offshore Pipeline Transportation and Soda and Sulfur Services segments.
- Diversified Operations: Genesis Energy operates in multiple segments, including pipeline transportation, soda and sulfur services, and onshore facilities and transportation. This diversification reduces the company's reliance on a single business line and provides stability in revenue streams.
- Healthy Liquidity Position: Genesis Energy reported cash, cash equivalents, and restricted cash of $36.8 million as of March 31, 2023. The company's liquidity position provides it with the necessary resources to fund its operations and invest in growth opportunities.
- Market Expansion: The company also has the opportunity to expand into markets globally. It is seen that there has been a global demand for energy especially with emerging economies and this presents the company the opportunity for growth. For example, it has been seen that in terms of Soda Ash company which is a major company that supplies to the profit of the company. The United States demand is relatively stable. They are positioned very high in Asia and Latin America markets. China has been demanding that industry products like on average 2-3% every year. Furthermore, it is seen that over 75% globally demand from glass, chemicals, and soaps/detergents. Thus, it is expected that with emerging economies that continue to develop will demand for glass, chemicals, and soap/detergents which will rise.
- Strong Industry Position: It is seen that the company is one of the key players in the midstream oil and gas industry which gives them a competitive advantage and potential for future growth. The industry the company is part of has a high barrier to entry as they are in the lead, it gives them the benefit of choosing the fixed entry costs and has an existing integrated asset footprint. This is significant as it enables the company to have operating leverage and upside. The expected offshore volume can grow and volumes of supply from the Granger facility can increase, and the soda ash prices increase with expansion of the company. Furthermore, it gives the company the potential to grow further.
- Strong Partnerships: The company has many strategic partnerships with other companies' part of the industry. This gives them the advantage to have access to reliable supply chains and a customer base which can increase their growth. As well as the company has more long-term contracts which gives the company the advantage to reduce their exposure to pricing fluctuations. In addition, it indicates the stability and predictability of the company's revenue.
- Focus on sustainability: The company also is committed to operating their business in a sustainable manner. This gives the company advantage that they are involved with marketing trends and positions them well for long-term success. Furthermore, it can help improve their operational efficiency which can help boost their profitability. It helps increase the available amount of cash flow per unit and can achieve company safety goals.

Investment Thesis II: Midstream Strategy

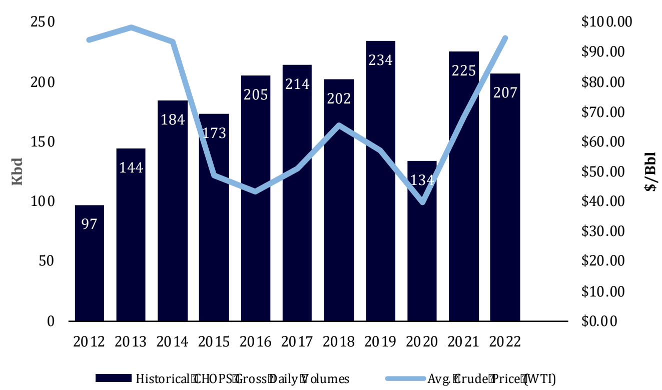


Genesis is a unique midstream company, as it operates offshore in the Gulf of Mexico. Its uniqueness comes from the company being independent and having significant infrastructure in the region. They operate a business model that is similar to their peers, where contracts negotiated with their customers are based on volume transported, and not by value. This means that the customer pays a fixed amount as opposed to the amount the market. The strategy allows Genesis to hedge against volatile price changes in the market. While this could act as a double edge sword during high growth as seen in 2022, this ensures the company remains stable throughout any circumstances.

Another strategy that Genesis employs is requiring a minimum quota in its contract. During times when crude oil prices are low, production is slowed. However, as Genesis operates a significant portion of their facilities offshore, these are typically harder to slow down production. As a result, Genesis leverages this in their contracts by stipulating that a minimum amount of oil must be transported. This has helped Genesis to maintain consistent productions and revenues in their offshore operations despite lower crude prices.

A testament to the success of their strategy has shown in their recent Q1 2023, where despite weather-driven issues causing earnings to be disappointing. Their Midstream segment remained strong by performing better than expected (even internally). During this quarter, Genesis received confirmation of successful production in their Argos Facility, which is expected to ramp up over the remainder of 2023. Despite concerns for winding down in demand of oil, Genesis believes that with their strategy as mentioned above, will allow the company to meet volume quotas of 300M Tons.

Moving forward, Genesis is continuing to develop their Midstream infrastructure by creating more in field development drilling such as Shenandoah and Salamanca. These platforms are expected to be operational by Mid-2024 and interconnected with Genesis existing midstream infrastructure. This will allow the company to produce 160,000 barrels of oil per day. This demonstrates the abilities of Genesis by being able to provide a stable, and future potential for the company in the Midstream industry within the Gulf of Mexico.



Investment Thesis III: Sustainable Energy Solutions

Environment: The company is moving towards goals to make their operations more sustainable. One way they are doing this is by reducing their emissions. The company has specified a plan to maintain a regulatory and compliance framework for the operational activities. As well as, the company wants to track requirements and deadlines in a compliance tracking system. The company will calculate the annual emissions and adjust to that which is stated by the federal law. The company will also use technology to reduce emissions and operate their marine vessels engines and generators to use less sulfur diesel. The company will also get rid of any ozone depleting substance from marine vessel A/C units. The company also opened a new NaHS terminal in Lake Charles, Louisiana which reduces the number of miles driven by tractors carrying products. With soda ash, natural production emits 37% less GHG emissions compared to synthetic soda ash production which emits 21% less GHG emissions. Furthermore, the company has programs that protect diversity such as the North Atlantic Right Whales. The company also has a program that defines actions such as installing leak detections, monitoring pipelines 24/7 and training employees for emergency situations in order to prevent spills. This helps make the company position themselves highly for being sustainable in the market especially as there is new global demand for renewable energy.

Social: The company believes their employees are the most important asset in the organization. In order for the company to continue to maintain the long-term careers at the company, they have an inclusive and diverse environment and are continuing to improve it. Currently, the company has more than 1,900 individuals and only 10% work in management and 11% work in non-management. There are only 11% who are part of a minority group that work in management and 20% from the same group that are non-management. The company has incorporated in their code of business conduct principles that relate to diversity. They also have a third party to help them hire and be more diverse without any biases. In addition, the company is aware of the communities that they operate and offer benefits such as hiring locally and providing a compensation and benefit package. They also source vendors and suppliers in which they operate. The company also provides monetary and nonmonetary support to local organizations through volunteer programs. The company does not operate in any Indigenous areas.

Government: The board of directors are seen as a critical role in the company as each director's different experiences are used to create the company’s corporate strategy. The company aims to bring more diversity into the board of directors as they currently see 14% of these positions are held by women. The company has a code of business conduct and ethics, financial conduct, and risk management which are some tools that help run the company.

Risk and Mitigants

Risk1: Volatility in Commodity Prices

Genesis Energy LP operates in the energy sector, which is subject to significant price fluctuations in commodities such as oil, natural gas, and refined products. Changes in commodity prices can impact the company's revenue and profitability. To mitigate this risk, Genesis Energy LP may employ hedging strategies to reduce the risk of prices fluctuating. By entering into derivative contracts, the company can fix prices for a certain part of its production or purchases, which provides stability and minimizes the impact of price fluctuations. In addition, the company limits the commodity price risks by including back-to-back purchases and sales. Through these methods it will reduce the risk but cannot completely eliminate it. Genesis Energy's soda ash business faced challenges by the coldest first calendar quarter in the last 23 years in southwest Wyoming. The severe weather posed challenges to mining and processing operations, resulting in production and sales volumes falling below the company’s goals. The lost volumes due to weather and inadequate rail service were estimated to result in a reduction in realized Segment Margin and Adjusted EBITDA of approximately $15 million for the first quarter and fiscal year. These lost volumes cannot practically be made up in subsequent periods. Despite the demand headwinds and uncertainty in pricing for uncontracted volumes in the back half of the year, Genesis Energy has contractually agreed on pricing for approximately 90% of its anticipated sales volumes of soda ash and related products in 2023. The company expects its weighted average realized price for the full year to exceed the weighted average realized price received in 2022.Genesis Energy remains confident in the future potential of its Deepwater areas in the central Gulf of Mexico, as well as its soda ash operations. The company expects increasing volumes in both segments over the next two to three years, which would provide a future path to increasing amounts of free cash flow and financial flexibility.

Risk 2: Environmental Risks

As an energy company, Genesis Energy LP is subject to various regulatory requirements and environmental standards. Non-compliance with these regulations can result in fines, penalties, or operational disruptions. To address this risk, the company invests in compliance programs for their operational activities and closely monitors changes in regulations to ensure ongoing adherence. Genesis Energy LP may also implement environmental management systems such as a tracking system and the company plans to have their marine vessels engines and generators to meet standards that use low sulfur diesel. As well as the company will invest in technologies that reduce its environmental footprint. For instance, the company wants their marine vessels A/C to have no ozone depleting substances. In order for the company to reduce their number of emissions, they have developed the NaHS plant in Westlake, Louisiana. This helps reduce the number of miles driven by tractors carrying products. Furthermore, it helps reduce the transportation costs and number of accidents. The company also focuses on protecting certain biodiversity through the risk-to-reefs programs and protecting the North Atlantic Right Whale. In order to prevent any spills which can harm the environment further the company has planned to install a leaking detection system and secondary containment system on facilities pipelines. The company will monitor their pipelines 24/7 and conduct pipelines and tank integrity testing. As well as they will create response plans for their facilities and what to do with the assets, and have their employees trained for this emergency situation.

Risk 3: Financial Risks

Genesis Energy LP faces financial risks related to factors such as changing interest rates, difficulties in accessing cash quickly, and the ability to raise funds from investors. To deal with these risks, the company uses strategies to manage financial risks, like protecting against interest rate changes, planning for cash needs, and allocating funds wisely. Genesis Energy LP also maintains relationships with multiple banks and has access to credit options to ensure it has enough cash and funding choices available. The company also enters into agreements with different partners, such as suppliers, customers, and banks. However, there is a risk that these partners might not fulfill their obligations, which could lead to financial losses for Genesis Energy LP. To reduce this risk, the company carefully examines its partners' financial strength and creditworthiness before entering into agreements. Additionally, Genesis Energy LP may include certain conditions in the agreements, like requiring collateral or extra financial security, to lower the risks associated with its partners. It is seen in the company that they are in debt which prevents them from participating in certain transactions that could be beneficial. It increases their vulnerability to the economic and industry conditions, limits their distributions and funding for work capital. As well as it'll impact their partnerships negatively and their future acquisitions. In order to mitigate these risks, it is best to incur additional indebtedness through issuing debt instruments, new credit agreements that can also be joint, under finance leases or a combination of these strategies. For example, if the company incurs additional indebtedness, then the company is more likely to be subjected to more terms and conditions that restrict them even more. By not following these terms then there can be a liability such as demand for immediate repayment and seizing assets as collateral. This can potentially limit the company's ability to meet obligations under the current agreements they have.

Risk 4: Additional Risks

Another risk is the inflation fluctuations. In 2022, President Biden created the Inflation Reduction Act (IRA) which imposed fees on emissions of methane which include sources of natural gas or petroleum production. Beginning in 2024, the IRA's methane emissions charge a fee on excess methane emissions starting at $900 per metric ton of leaked methane in 2024 and then increasing to $1,200 in 2025. This law and imposition of the fee could prevent the company's business as individuals' transition away from gas and oil.

Valuation

Intrinsic Valuation

Genesis Energy LP Discounted Cash Flow Model (US$M)						
	2022A	**2023E**	**2024E**	**2025E**	**2026E**	**2027E**
Revenue	2,789	3,051	3,153	3,388	3,495	3,575
% Growth		*9.41%*	*3.34%*	*7.43%*	*3.18%*	*2.29%*
EBITDA	611	734	774	840	887	911
% Margin		*24.06%*	*24.55%*	*24.80%*	*25.36%*	*25.48%*
EBIT	315	438	461	508	538	545
% Margin		*14.35%*	*14.62%*	*14.99%*	*15.39%*	*15.25%*
NOPAT	**307**	**427**	**450**	**496**	**525**	**532**
(+) Depreciation, Depletion and Amortization	296	296	313	332	349	366
(-) Capital Expenditures	(88)	(517)	(404)	(444)	(394)	(417)
(-) Change in Working Capital	(424)	(11)	(4)	(10)	(5)	(3)
Unlevered FCF	**92**	**195**	**355**	**374**	**476**	**477**
Discount Factor		*1.04*	*1.14*	*1.24*	*1.34*	*1.46*
PV of Unlevered FCF		**187**	**313**	**303**	**354**	**326**

Growth in Perpetuity Approach	
Long-Term Growth Rate	2.00%
Terminal Year UFCF	486,782
Terminal Value	**7,126,402**
PV of Terminal Value	4,869,553
Sum of PV of UFCF	1,482,407
Enterprise Value	**6,351,960**
Less: Net Debt	4,790,160
Equity Value	**1,561,800**
Shares Outstanding	122,579
Fair Value Share Price	**12.74**
Premium (Discount)	*14.48%*

Using the growth in perpetuity method assuming a long-term growth rate of 2%, the implied upside is seen as 14.48%. We see Genesis growing a fair growth of 9.41% in 2023 and a conservative 5.13% growth rate CAGR over the 5 years forecasted discounted cash-flow analysis. Taking the present value of the terminal value and adding the present value of the unlevered free cash flow, we came to an enterprise value of $6,351,950. After subtracting all relevant calculations (Net Debt) and dividing the resulting equity value by the number of shares outstanding, we arrived at an implied equity value of $12.74. This results to a 14.48% upside and looked upon as a buy through the growth in perpetuity approach.

EV/EBITDA Exit Multiple Approach	
Exit Multiple	8.30x
Terminal Year EBITDA	911,063
Terminal Value	**7,561,824**
PV of Terminal Value	5,167,082
Sum of PV of UFCF	1,482,407
Enterprise Value	**6,649,489**
Less: Net Debt	4,790,160
Equity Value	**1,859,329**
Shares Outstanding	122,579
Fair Value Share Price	**15.17**
Premium (Discount)	*36.28%*

Using the EV/EBITDA exit multiple approach assuming an exit multiple of 8.3x the implied upside is seen as 36.28%. This is a more bullish approach as we are assuming that the EBITDA and EBIT margin relatively stable across the five-year forecast. These margins are relatively consistent at approximately 25% for the EBITDA margin and 15% for the EBIT margin. After using an 8.3x exit multiple which is industry standard and multiplying it with the terminal value EBITDA, we resulted to an equity value of $1,859,329. This resulted to an implied share price of $15.17 after dividing the equity value by the amount of shares outstanding. Overall, the EV/EBITDA exit multiple approach computes an upside of 36.28%

		Long Term Growth Rate				
		1.80%	1.90%	2.00%	2.10%	2.20%
WACC	8.63%	13.06	13.69	14.35	15.02	15.71
	8.73%	12.29	12.90	13.53	14.19	14.86
	8.83%	11.54	12.13	12.75	13.38	14.03
	8.93%	10.81	11.39	11.98	12.59	13.22
	9.03%	10.11	10.66	11.24	11.83	12.44

		Exit Multiple				
		8.10x	8.20x	8.30x	8.40x	8.50x
WACC	8.63%	14.56	15.07	15.58	16.09	16.60
	8.73%	14.35	14.86	15.37	15.88	16.39
	8.83%	14.15	14.66	15.17	15.68	16.19
	8.93%	13.95	14.46	14.97	15.47	15.98
	9.03%	13.76	14.26	14.76	15.27	15.77

Looking at the sensitivity analysis for the long-term growth rate, the highest WACC with the lowest long-term growth rate implies an implied price of $10.11 which is not too far fetch from our target price.

Looking at the EV/EBITDA exit multiple approach, for highest WACC with the lowest exit multiple implies an implied price of $14.56 which is not too far fetch from our target price which implies that the bear case scenario is not too risky.

Relative Valuation

Company Name	Ticker	Share Price (US$)	Market Cap ($M)	Enterprise Value ($M)	EV/Revenue LTM	EV/Revenue NTM	EV/EBITDA LTM	EV/EBITDA NTM	Net Debt ($M)	Dividend Yield	Shares Outstanding (M)
Genesis Energy LP	**NYSE: GEL**	11.13	1,364	6,154	2.2x	1.9x	7.7x	8.5x	4,790	5.4%	123
Nustar Energy LP	**NYSE: NS**	15.33	1,700	6,249	3.7x	3.5x	8.4x	8.5x	3,293	10.4%	111
Holly Energy Partners LP	**NYSE: HEP**	17.61	2,227	3,972	7.3x	7.0x	12.3x	8.8x	1,745	8.0%	126
Sunoco LP	**NYSE: SUN**	41.60	3,497	7,535	0.3x	0.3x	8.5x	8.5x	4,038	7.9%	84
Crestwood Equity Partners LP	**NYSE: CEQP**	23.18	2,442	6,892	1.2x	1.2x	9.4x	8.3x	4,435	11.3%	105
Element Solutions Inc.	**NYSE: ESI**	18.38	4,436	6,137	2.4x	2.4x	11.8x	11.9x	1,701	1.7%	241
Compass Minerals International	**NYSE: CMP**	31.99	1,315	2,001	1.8x	1.6x	10.9x	9.7x	686	1.9%	41
Avient Corporation	**NYSE: AVNT**	38.02	3,459	5,073	1.5x	1.5x	9.7x	9.5x	1,614	2.6%	91
	High	41.60	4,436	7,535	7.3x	7.0x	12.3x	10.0x	4,435	11.3%	241
	Low	15.33	1,315	2,001	0.3x	0.3x	8.4x	8.3x	686	1.7%	41
	Mean	26.59	2,725	5,408	2.6x	2.9x	10.1x	9.3x	2,502	6.3%	114
	Median	**23.18**	**2,442**	**6,137**	**1.8x**	**2.0x**	**9.7x**	**8.8x**	**1,745**	**7.9%**	**105**

EV/Revenue	
Revenue	3,175
EV/Revenue	2.0x
Enterprise Value	**6,398**
Less: Net Debt	4,790
Equity Value	**1,607**
Shares Outstanding	123
Implied Equity Value per Shar	**$13.12**
Implied Upside (Downside)	17.86%

EV/EBITDA	Bear	Base	Bull
EBITDA	725	725	725
EV/EBITDA	8.3x	8.8x	9.3x
Enterprise Value	**6,039**	**6,395**	**6,716**
Less: Net Debt	4,790	4,790	4,790
Equity Value	**1,249**	**1,604**	**1,926**
Shares Outstanding	123	123	123
Implied Equity Value per Share	**$10.19**	**$13.09**	**$15.72**
Implied Upside (Downside)	(8.42%)	17.63%	41.20%

When conducting the relative valuation, the most apples-to-apples comparisons with Genesis was used. The method of business operations, company size, and similar forward-looking multiples was used to conduct this valuation. The two main multiples that were used in this analysis were the EV/Revenue and EV/EBITDA. This is because it is important to get a grasp of the how the company is doing in terms of incorporating for operating expenses and not. If there is a similar correlation between the two multiples, that means there is a strong usage of operating expenses. Using both these valuation methods, the implied upside using the EV/Revenue multiple is 17.86% and the implied upside for the EV/EBITDA multiple is 17.63%. Both of upsides are positively correlated implying a positive outlook and looked upon as a potential buy in terms of relative valuation.

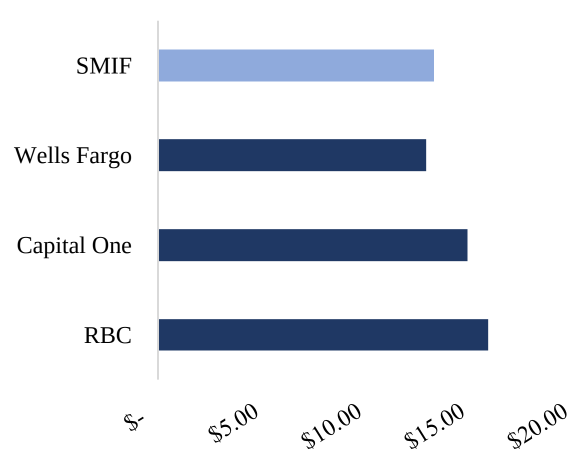
Recommendation

Blended Target Price

Valuation Methodology	Weight	Target Price
Comps EV/EBITDA	40.00%	13.09
DCF EV/EBITDA	20.00%	15.17
DCF Growth in Perpetuity	40.00%	12.74
Blended Target Share Price		**13.37**
Current Share Price		10.53
Implied Upside/(Downside)		**26.93%**

After weighing the relative valuation, EV/EBITDA DCF approach and the DCF growth in perpetuity approach at 40%, 20% and 40% respectively, the implied share price is $13.37 which implies an upside of 26.93%. The reason the EV/EBITDA DCF approach is weighted less is due to the bullish approach taken via the exit multiple.

Street Estimates



Toronto Metropolitan University | Ted Rogers School of Management | Student Managed Investment Fund Surveillance Report

Share Price:	**$41.9**
Recommendation:	**BUY**
Target Price:	**$49.33**
Upside/(Downside):	**17.73%**
Market Cap (B):	**$23.04**
Shares Outstanding (MM):	**564**
Dividend Yield:	**4.83%**
Asking Portfolio Weight:	**0.5%**

Source: Capital IQ

EXECUTIVE SUMMARY

Recommended Buy for Pembina Corporation

This report provides an analysis of Pembina Corporation. The report will examine the company's fundamentals, and its positioning relative to industry peers and will analyze the company using various valuation methods to achieve an implied target price.

Company Overview

Founded in 1954, Pembina has grown into a well-established company operating a network of pipelines, storage facilities, and processing plants across North America. These infrastructures span over a distance of 19,000KM allowing the company to transport a wide range of products to their customers, who are in oil and gas, petrochemicals, and industrial markets. These products include hydrocarbon liquids, natural gas, oil and much more. The company aims to deliver extraordinary energy solutions to consumers that aligns with ESG, this has been one of their notable strengths, employing a strict regulatory requirement in order to fulfill these practices.

Business Segments

Facilities Division

The facilities division manages Pembina's infrastructure which provides customers with natural gas, condensate and NGL services. Their infrastructure is strategically positioned in resource rich areas of the WCSB and Williston Basin. The facilities divisions also include 354 mbpd of NGL fractionation, 21 mmbbls of cavern storage and associated pipeline and rail terminal ling facilities. Together these facilities are integrated with other segments of Pembina's operations to allow for a comprehensive suite of services that are able to enhance Pembina's hydrocarbon products.

Marketing and New Ventures Division

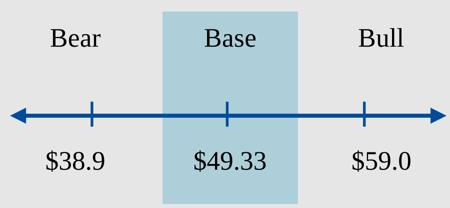
The marketing and new ventures divisions provide Pembina the ability to seek new markets as well enhance existing ones. Their main goal is to identify opportunities to connect hydrocarbons to new locations through the development of infrastructure. In addition, within the marketing and new ventures division, Pembina also undertakes value-added marketing activities which include actively buying and selling products, commodity arbitrage and optimizing storage opportunities.

Pipelines Division

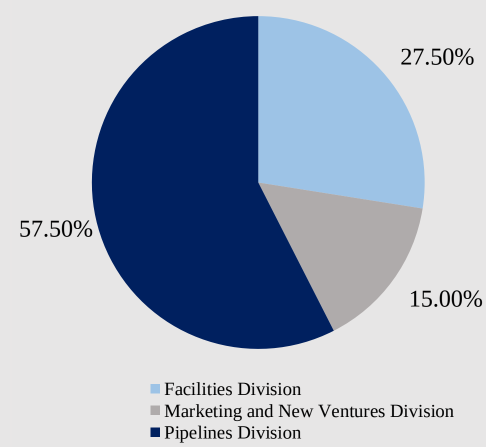
The pipelines division provides customers with transportations, and key market hubs across North America. The division transports natural gas liquids, and natural gas. Current capacity for the division is as the following: transportation capacity of 2.8 mmboe/d, above ground storage of 11 mmblsand rail terminalling capacity of approximately 105 mboe/d. In addition, the pipeline division provides linkage between their upstream and downstream assets enabling an integrated customer service offering.

Stock Price Performance (Year)

Scenario Analysis



Revenue Segmentation



Industry Overview

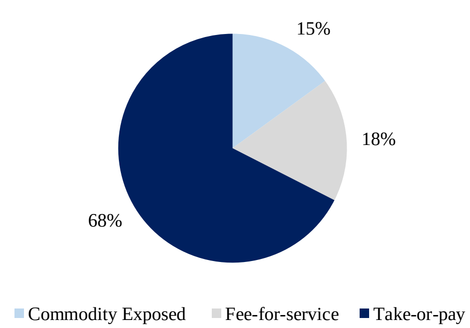
Pembina has been one of the leading companies in the energy transportation industry and midstream service in North America for more than 65 years. The company specifically transports hydrocarbon liquids and natural gas products in Western Canada. In order for the company to have a long term success the company focused on four factors around their strategy which are to be resilient by being sustainable, investing in energy transition to improve the basins that the company operates. The company will try to meet global demand which will bring higher margin products and create a differentiated experience to their shareholders to set themselves apart from their competitors.

The midstream sector of the oil and gas industry plays a crucial role in the processing, storage, and transportation of various energy products such as crude oil, natural gas, natural gas liquids (NGLs), and sulfur. This includes activities like refining bitumen into synthetic crude in regions with extensive oil sands extraction, like Canada. Midstream companies generate revenue by providing services along the entire value chain of oil, gas, and NGLs, earning fees, regulated tariffs, and commodity-based margins. The market is characterized by a significant number of players, with approximately 70 companies holding market share in North America. The global midstream market is valued at around $28.91 billion USD in 2020 and is expected to grow to approximately $30.63 billion USD by 2021, with a compound annual growth rate (CAGR) of 6.36%. By $44.53 billion by 2027.

Some key trends in the industry are one that there will be an increase in conventional pipelines volumes. The company has forecasted it would grow four to six percent. It is also seen that the transportation sector will be the main market segment in this industry. This is because of the continuous need for energy and the expansion of oil and gas in different regions increases the construction of new pipelines and transportation services. Another trend is the increasing investments and development of offshore fields. Another trend that is seen is the growth of the oil and gas midstream market in South America. This region has a lot of oil and gas reserves including offshore fields. The company can expand into this market. There are also new incorporated policies that can be incorporated due to the environmental concerns which can impact the pace of the development of the pipelines and transportation infrastructure. It is also being seen the expansion of the liquefied natural gas (LNG) market presenting opportunities for the midstream companies to grow. Another trend seen is the aging of the pipeline infrastructure. There needs to be more expansion and modernization to meet the rise in demand. So, by upgrading and expanding the pipeline it will help the company gain more opportunities such as profitability. As well as the company can incorporate ESG.

Investment Thesis I: Business Model and Capital Allocation

Pembina as a company has outperformed its peers in the long-term providing an 8.4% compounded annual growth, compared to the benchmark of 6.5%. This is mainly due to Pembina's stable business model of a diversified and integrated asset base which provides low risk to its shareholders.



One of their main revenue sources comes from their fee-based business. As natural resources are subjected to current market conditions, to hedge against this, Pembina has developed a contract structure that mirrors a take-or-pay system to ensure a stable free cash flow. This system ensures that even if companies decide to not take the full amount that is produced by Pembina, they are still liable to pay for the remaining volume, albeit at a partial amount from the full price. Pembina has stated that it expects its fee-based business to continue benefiting from the expansion in the Western Canadian Sedimentary Basin, such as their Nipisi Pipeline and the Clearwater Play which has been reactivated in order to capitalize on growing interest.

During their 2022 annual report, Pembina reaffirmed its commitments to allocating capital to long term growth projects which would benefit shareholder value. Pembina had also capitalized on record revenues for the industry, moving forward Pembina expects to fund capital expenditures in 2023 ($640M) based on free cash from operating activities alone. In addition, Pembina will also direct excess cash flow gained during 2022 into its debt repayment, one of the areas of concerns that investors had been worried about. To further maintain its flexibility in capital allocation, Pembina has renewed its normal course issuer bid during the quarter in order to pursue share buybacks, which demonstrates Pembina's commitment to create shareholder value.

Investment Thesis II: Opportunity in LNG due to volume demand from NEBC

Pembina Pipelines is in a unique position to take advantage of increases in volume from NEBC. During recent years, the global demand for liquefied natural gas has been increasing due to various Asian markets.

Over the past 7 years, the US has been growing their export capacity of LNG with this trend to continue in the future. The new demand for LNG products is set to be handled and supplied by North America which is currently projected to meet 80% of the increasing demand of LNG for the coming 3-5 years. This increase in supply will result in growing volumes needing to be moved towards export facilities through Pembina's infrastructure. Pembina expects up to 7 Bcf/d of potential export over the next decade from LNG Canada, Cedar LNG, Woodfibre LNG and Ksi Lismis LNG. Pembina currently has multiple contracts in place to take advantage of this consisting of a 20-year service agreement with ConocoPhillips, a long-term agreement with Tourmaline Oil Corp., and an agreement with a second Montney producer. The agreement with ConocoPhillips entails the transportation and fractionation of liquids from the Montney Development in NEBC. With expansion plans in place, Pembina is preparing and capable of transporting higher volumes.

A long-term major development in Pembina is the first of its kind floating LNG facility. The Cedar LNG project is a partnership with the Haisla Nation where Pembina will be the operator of the facility and the Haisla Nation will be the owners. Currently going through front end engineering and design (FEED) activities as well as an Environmental Assessment process, the final investment decision will be made in the second half of 2023. The facility has a strong probability of passing inspections as this will be one of the cleanest environmental profiles in the world. Connected to BC hydro transmission lines, Cedar LNG will be utilizing electricity made from renewable sources will make Cedar LNG have one of the lowest emission intensities of any LNG facility globally. Additionally, Cedar plans to operate at 0.08 carbon dioxide equivalent tonnes for each tonne of LNG produced and is below British Columbia's limit for "emissions intensity" of 0.16 CO_2 equivalent tonnes. While some analysts predict that this additional facility in British Columbia will push BC out of its emission targets, Pembina has strong confidence that the project will be approved, and construction will move forward.

Post approval, Pembina is set to meet with contractors such as Samsung Heavy Industries Co. Ltd., a major shipbuilder based in South Korea to begin production of LNG carriers. Post construction, natural gas will be delivered to the site through a pipeline that connects to the Coastal GasLink pipeline. The gas will be treated and chilled to convert it to a liquid to then be loaded onto an LNG carrier. This facility is expected to handle up to 50 LNG carriers a year which equates to 3 million tonnes of LNG per year. Located on the Douglas Channel, Cedar LNG is a strategically placed facility that will allow PPL to break into the Asian market. Currently, Canada lacks the infrastructure to complete LNG exports which pushes it out of the market for short-term needs. Cedar LNG solves this issue for Pembina, with many interested parties looking into LNG imports from Cedar, management is confident in the success and demand from this facility. Growing Global Demand: The global demand for liquefied natural gas (LNG) has been increasing, particularly in Asian and European markets. According to the International Energy Agency, global demand for natural gas is expected to expand by 29% over the next 20 years, with significant contributions from emerging Asian markets such as China and India.

Focus on Environmental Concerns: Asian markets, including China, are making efforts to address pollution and smog problems, leading to a shift towards cleaner energy sources like natural gas. This long-term trend creates a favorable environment for the LNG industry, and Pembina is well-positioned to benefit from this growing demand.

Increased LNG Imports in Europe: European countries have experienced a significant increase in LNG imports due to the desire to reduce dependency on Russian natural gas. This trend is expected to continue as facilities retire coal-fired plants, providing an additional market for LNG producers like Pembina. North American LNG Supply: The United States has been expanding its LNG export capacity in recent years, with North America projected to meet 80% of the increasing global LNG demand in the next 3-5 years. Pembina's infrastructure is well-suited to handle and supply the growing volumes of LNG needed for export. Long-Term Contracts: Pembina has secured multiple long-term contracts, including a 20-year service agreement with ConocoPhillips and agreements with other Montney producers. These contracts provide stability and predictable cash flows for Pembina, which is beneficial for investors. Expansion Plans: Pembina has expansion plans in place to accommodate higher volumes of LNG transportation. This forward-looking approach positions the company to capture growth opportunities and potentially increase its market share in the LNG sector.

Investment Thesis III: Strength in Partnerships = Healthy Growth

In a sector that is prone to secular decline, one of the few ways to achieve healthy growth is through strategic acquisitions and partnerships to increase synergies as well as reduce combined costs. As a part of their growth plan, Pembina has sought to create partnerships with other companies in order to reduce the burden of costs for a singular project. During their past 2 years Pembina has partnered with several companies in order to improve their ESG, as well as overall business operations.

Alberta Carbon Grid: Patterned with TC energy, Pembina aims to create a world scale carbon transportation that would improve efficiency in the transportation of CO_2 through several hubs located across Alberta. This ambitious project would at its peak annually transport up to 20M tons of CO_2 which represents almost 10% of Alberta's industrial emissions. The Albertan government has greenlighted the project allowing the 2 companies to explore areas where they can construct regional hubs. With support from the provincial government, this allows the companies not only to improve their own ESG but aid in Canada's climate targets of a 40-45% reduction in GHS emissions.

Other key benefits from the Alberta Carbo Grid include:

- Cost and Time Benefits: with the existing infrastructure of pipelines, the Alberta Carbon Grid project will aid in connecting the infrastructure from both companies. This process is less capital intensive as opposed to building a new pipeline.
- Platform for Diversification: ACG is expected to serve as a platform for create other products such as blue hydrogen and petroleum facilities. These not only aid in benefiting the Alberta economy but also the Pembina Shareholders
- Cost Advantaged Fee-Based Commercial Framework: While the ACG project is expected to cost billions over time, the framework for long term fee-based contracts, marketing and a trading pool allow tolls to be less than the current price of carbon in Alberta. This provides attractive value for customers, which would increase overall revenue growth.

Cedar LNG: Partnered with Haisla First Nation to develop Cedar LNG, the project aims to create a floating facility that provides an outlet for WCSB natural gas to access global markets. The project will provide the companies with a financial rail guard as it is expected to be low risk, but also provide long term cash flow stream. Currently the project has already had some long-term commitment with companies, for example Cedar LNG entered into a 20-year contract for liquefaction services with ARC services.

Other benefits from the Cedar LNG project include the ability to enhance ESG profile. The Cedar LNG project is projected to be one of the cleanest environmental profiles in the world. This is due to the facility being connected with BC hydro to utilize renewable energy.

Chinook Pathways: An indigenous led project, provides a unique opportunity for Pembina to cooperate with the Indigenous population around the area by providing economic reconciliation through creation of Wealth. While this project is less of a growth opportunity to investors as it is a 50-50 partnership stake in the Trans Mountain Pipeline. It affirms Pembina's commitment to ESG developing indigenous businesses and communities.

Risk and Mitigants

Environmental concerns

With global warming, pollution and the many eco disasters that fossil fuels have caused, this has caused the industry to come under scrutiny from both governments and the public. As many countries have agreed to reduce greenhouse gas emissions, this has caused governments to put pressure on companies who operate within the natural gas sector by putting a carbon tax and increasing investments in renewable energy. This has incentivized many companies that operate within fossil fuels to transition a portion of their business into cleaner alternatives. As a result, it is expected that fossil fuel companies will no longer be solely invested in fossil fuels but diversity into clean energy.

To mitigate the risk and promote ESG, Pembina has put in place a strict regulatory system in its management to ensure compliance, which includes a code of conduct in how management can carry out their day-to-day operations in relation to Ethics and Sustainability. Furthermore, to improve their ESG track record Pembina has designed a roadmap that by 2030 they aim to cut over 30% of their current GHG emissions. This plan is devised into 3 steps, with the first being to optimize current infrastructure in order to reduce energy consumption. The second expanding further into renewable energy by focusing on acquisitions as well as investments, recently Pembina announced a purchase agreement with TransAlta to focus on the Garden Plain Wind Project. The third step involves Pembina developing the Alberta Carbon Grid which aims to reduce carbon emissions.

Macroeconomic Factors

It is expected that the economy will slow down in the next couple of years, as a result consumer demand for oil has dropped significantly for 2023. Almost 10 dollars down after the recent OPEC cuts, Pembina has been realistic with its outlook on the market conditions and expects its Marketing and New Ventures Division to perform moderately. Another concern for Pembina is the amount of long-term debt it has (roughly $10B). Currently the company has been issued a BBB rating, while the risk of defaulting is low, increasing interest rates and lower projected revenues in the coming year could cause further concern.

In order to mitigate risks of any potential economic consequences, Pembina has looked to its balance sheet to improve long-term growth value for shareholders. These include doing share buybacks and reducing debt repayments with excess cash gained from its record year in 2022. Furthermore, current long-term contracts ensure that Pembina will maintain a steady cash flow throughout the economic uncertainty.

Valuation

Intrinsic Valuation

Pembina Corporation Discounted Cash Flow Model (C$000's)										
	2022A	**2023E**	**2024E**	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**	**2030E**	**2031E**
Revenue	8,926.8	10,265.8	11,497.7	13,814.9	14,285.4	14,571.1	14,862.5	15,159.7	15,462.9	15,772.2
EBITDA	2,191.9	3,285.0	3,679.3	4,420.8	4,571.3	4,662.7	4,756.0	4,851.1	4,948.1	5,047.1
EBIT	1,717.5	2,574.1	2,883.0	3,464.0	3,582.0	3,653.6	3,726.7	3,801.3	3,877.3	3,954.8
Tax Rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
NOPAT (EBIAT)	**1,288.1**	**1,930.6**	**2,162.3**	**2,598.0**	**2,686.5**	**2,740.2**	**2,795.0**	**2,850.9**	**2,908.0**	**2,966.1**
Plus: Depreciation and Amortization	602.6	692.9	776.1	932.5	964.3	983.5	1,003.2	1,023.3	1,043.7	1,064.6
Less: Change in Net Working Capital	-188.4	-194.7	-211.6	-291.6	-301.5	-307.6	-313.7	-320.0	-326.4	-332.9
Less: Capital Expenditures	-567.2	-652.3	-644.4	-659.3	-666.8	-673.6	-677.0	-685.7	-695.7	-706.7
Unlevered Free Cash Flow	**1,135.0**	**1,776.5**	**2,082.4**	**2,579.6**	**2,682.4**	**2,742.7**	**2,807.5**	**2,868.5**	**2,929.6**	**2,991.1**
Discount Factor	0.9	0.9	0.8	0.8	0.7	0.7	0.6	0.6	0.6	0.5
Midyear Adjustment Factor										
Present Value of Unlevered Free Cash Flows	**1,065.5**	**1,565.6**	**1,722.5**	**2,003.2**	**1,955.5**	**1,877.0**	**1,803.4**	**1,729.8**	**1,658.5**	**1,589.6**
Sum PV of UFCF	**16,970.6**									

Terminal Value - Growth in Perpetuity Approach	
Long-Term Growth Rate	2.0%
Terminal Value	49,511
PV of Terminal Value	**22,591**
Sum PV of UFCF	16,971
Total Enterprise Value	**39,562**
Less: Net Debt	(11,919)
Shares Outstanding	**564**
Equity Value	**$49.01**
Premium/(Discount)	*17.6%*

Using the growth in perpetuity method assuming a long-term growth rate of 2%, the implied upside is seen as 17.6%. Taking the present value of the terminal value and adding the present value of the unlevered free cash flow, we came to an enterprise value of $39,562. After subtracting all relevant calculations (Net Debt) and dividing the resulting equity value by the number of shares outstanding, we arrived at an implied equity value of $49.01. This results to a 17.6% upside and looked upon as a buy through the growth in perpetuity approach.

Terminal Value - EBITDA Multiple Approach	
EBITDA Multiple	10.0x
PV of Terminal Value	23,030
Sum PV of UFCF	16,971
Total Enterprise Value	**40,000**
Less: Net Debt	(11,919)
Shares Outstanding	564
Equity Value	**$49.79**
Premium/(Discount)	*19.4%*

Using the EV/EBITDA exit multiple approach assuming an exit multiple of 10.0x the implied upside is seen as 19.4%. The PV of the terminal value is $23,030. The addition of the PV of the terminal value and the sum of the PV of future unlevered cashflows resulted in a total enterprise value of $40,000. The number of outstanding shares is 564 million. The equity value per share is $49.79 which implies a premium of 19.4%. This upside is looked upon as attractive for investors especially with a dividend yield of 4.83%

		Long Term Growth Rate				
		1.0%	1.5%	2.0%	2.5%	3.0%
WACC	6.7%	58.59	63.67	69.84	77.49	87.22
	7.2%	52.48	56.56	61.43	67.34	74.67
	7.7%	47.38	50.71	54.62	59.29	64.96
	8.2%	43.08	45.83	49.01	52.77	57.24
	8.7%	39.42	41.71	44.34	47.40	51.00
	9.2%	36.27	38.20	40.39	42.92	45.85
	9.7%	33.54	35.18	37.03	39.13	41.56

Looking at the sensitivity analysis for the long-term growth rate, the highest WACC with the lowest long-term growth rate implies an implied price of $33.54. Note that this is looked as the most extreme bear case.

		Exit EBITDA Multiple				
		9.0x	9.5x	10.0x	10.5x	11.0x
WACC	6.7%	55.91	55.91	55.91	55.91	55.91
	7.2%	53.76	53.76	53.76	53.76	53.76
	7.7%	51.73	51.73	51.73	51.73	51.73
	8.2%	49.79	49.79	49.79	49.79	49.79
	8.7%	47.95	47.95	47.95	47.95	47.95
	9.2%	46.20	46.20	46.20	46.20	46.20
	9.7%	44.54	44.54	44.54	44.54	44.54

Looking at the EV/EBITDA exit multiple approach, for highest WACC with the lowest exit multiple implies an implied price of $44.54 which is not too far fetch from our target price which implies that the bear case scenario is not too risky.

Relative Valuation

Company Name	Ticker	Share Price	Market Capatilization ($B)	Enterprise Value ($M)	EV/EBITDA LTM	EV/EBITDA NTM	P/E LTM	P/E NTM	Total Debt	Dividend Yield	Shares Outstanding
Gibson Energy Inc.	TSX: GEI	$21.5	$3.05	$4,654.9	8.6x	9.3x	12.2x	14.8x	$1,644.98	5.47%	141.9
Keyera Corp.	TSX: KEY	$31.2	$7.15	$11,389.4	10.3x	10.7x	19.8x	14.9x	$4,253.63	5.50%	229.2
TC Energy Corp.	TSX: TRP	$54.6	$55.60	$117,863.8	11.4x	11.3x	34.4x	13.0x	$63,764.00	4.90%	1022.7
Enbridge Inc.	TSX: ENB	$50.1	$101.36	$191,231.3	11.7x	11.8x	42.5x	16.9x	$80,682.00	5.80%	2024.7
Pembina Pipeline Corp.	TSX: PPL	$41.9	$23.04	$36,594.6	11.7x	10.0x	8.5x	14.7x	$11,366.0	4.83%	564.0
	High	$54.6	$101.4	$191,231.3	11.7x	11.8x	42.5x	16.9x	80,682.0	5.80%	2024.7
	Low	$21.5	$3.1	$4,654.9	8.6x	9.3x	8.5x	13.0x	1,645.0	4.83%	141.9
	Mean	$39.9	$38.0	$72,346.8	10.8x	10.6x	23.5x	14.9x	32,342.1	5.30%	796.5
	Median	$41.9	$23.0	$36,594.6	11.4x	10.7x	19.8x	14.8x	11,366.0	5.47%	564.0

EV/EBITDA Valuation	Bear	Base	Bull
2023E EBITDA	3,625.0	3,717.0	3,800.0
EV/EBITDA	9.3	10.6	11.8
Enterprise Value	**33,882.7**	**39,550.0**	**44,936.1**
Less: Net Debt	12,422.0	12,422.0	12,422.0
Equity Value	**21,460.7**	**27,128.0**	**32,514.1**
Diluted Shares Out.	564.0	564.0	564.0
Equity Value/Share	**38.9**	**49.2**	**59.0**
Implied Upside/(Downside)	-7%	17.5%	40.8%

When conducting the relative valuation, the most apples-to-apples comparisons with Pembina was used. The method of business operations, company size, and similar forward-looking multiples was used to conduct this valuation. The main multiple that was used in this analysis was the EV/EBITDA multiple. This is because the EV/EBITDA multiple considers all the operating expenses but removes the factors of depreciation, taxes, and interest. This generates a more core understanding of how the business is operating in comparison to their size. Using this valuation methods, the implied upside for the EV/EBITDA multiple is 17.5%. This upside is similar to the long-term perpetuity approach which shows that the performance for Pembina relative to the market is similar to Pembina's intrinsic performance, which indeed is attractive to an investors eye.

Recommendation

Blended Target Price

Valuation Methodology	Weight	Target Price
Comps EV/EBITDA	33.33%	49.20
DCF EV/EBITDA	33.33%	49.79
DCF Growth in Perpetuity	33.33%	49.01
Blended Target Share Price		**49.33**
Current Share Price		41.9
Implied Upside/(Downside)		**17.73%**

After weighing the relative valuation, EV/EBITDA DCF approach and the DCF growth in perpetuity approach at equal weighting, the implied share price is $49.33 which implies an upside of 17.73%. The reason that all approaches is weighted consistently is due to the similar target prices that were derived, implying a positive outlook for the target price.

Street Estimates