

Action Note

Equity Research

January 18, 2022

Energy Producers - Junior & Intermediate

Tourmaline Oil Corp.

(TOU-T) C\$46.05

More Cash Dividends (Regular & Special); Much More to Come...

Aaron Bilkoski

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Event

Bumps Base Dividend, Declares Second Special Dividend, and Provides Operations Update

Impact: POSITIVE

Base Dividend Increased: Tourmaline announced that it has increased its base quarterly dividend to \$0.20/share (from \$0.18), which equates to an annualized yield of 1.7%. This base dividend level consumes ~7% of 2022E FCF. Additionally, Tourmaline declared its second special dividend at \$1.25/share or 2.7% of yesterday's closing price (payable to shareholders of record on January 25). This follows the Q3/21 special dividend of \$0.75/share.

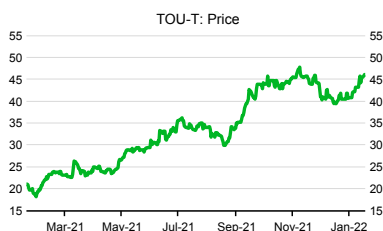
Our View

- We had anticipated ([here](#)), but not formally forecast, a second special dividend in Q1/22. Based on investor feedback, we believe the market was expecting a special dividend of ~\$1.00/share. Therefore, this is likely higher than what most expected.
- Tourmaline's latest presentation includes an FCF outlook for 2022+, which we can use to extrapolate the amount of cash flow the company could return. Specifically, net of the current dividend and the announced special dividend, shareholders could expect an incremental \$2.25/share dividends/buybacks (~5% of current share price) in 2022E for Tourmaline to meet its commitment to return the majority of FCF to equity holders. This is based on TOU's price deck of US\$68/bbl WTI and US\$3.61/mcf HH, which is below both TD and futures pricing.
- In aggregate, investors purchasing shares today could anticipate >9% of the current share price returned via cash dividends through 2022E (assuming no NCIB participation). This is incremental to our forecast of 8% y/y production growth per share.**

Q4/21 Affected by Weather, but within Guidance; 2022 Outlook Unchanged: Q4/21 production was indicated to be ~485 mBOE/d, which is at the lower end of guidance, partly due to extremely cold weather (impact: ~6 mBOE/d). Q1/22 production is guided to be 500-510 mBOE/d. FY-2022 guidance is unchanged.

TD Investment Conclusion

Tourmaline offers top-tier assets, best-in-class management, profitable production growth, scale to execute diverse market egress strategies, significant cash returns to shareholders, and negligible debt.



Company Profile

Tourmaline Oil Corp. (TOU-T) is a Canadian oil and natural gas exploration, development, and production company, with properties concentrated in central Alberta and northeast B.C.

Recommendation:	BUY
Risk:	HIGH
12-Month Target Price:	C\$64.00
12-Month Dividend (Est.):	C\$2.05
12-Month Total Return:	43.4%

Market Data (C\$)

Current Price	C\$46.05
52-Week Range	\$18.11 - \$48.14
Mkt Cap (f.d.) (\$mm)	\$15,428.7
Mkt Cap (basic) (\$mm)	\$15,178.1
Float Cap (\$mm)	\$11,383.6
Current Dividend	\$0.80
Dividend Yield	1.7%
Avg. Daily Trading Vol.	3,356,552

Financial Data (C\$)

Fiscal Y-E	December
Shares O/S (f.d)(mm)	335.0
Shares O/S (basic) (mm)	329.6
Float Shares (mm)	247.2
Net Debt (\$mm)	\$903.0
Net Debt/Total Cap	6.0%
NAVPS	\$72.53

Estimates (C\$)

Year	2020A	2021E	2022E	2023E
CFPS (f.d)	4.35	9.46	11.02	8.78
CFPS (f.d) (old)	-	9.51	11.01	8.74
Oil & NGLs (mb/d)	64.5	98.2	113.8	114.2
Gas (MMcfd/d)	1,476.6	2,057.6	2,340.1	2,400.6
MBOE/d	310.6	441.2	503.8	514.3

CFPS (f.d) Quarterly Estimates (C\$)

Year	2020A	2021E	2022E	2023E
Q1	1.05	2.11	3.31	2.55
Q2	0.83	1.89	2.59	2.02
Q3	1.03	2.32	2.48	1.98
Q4	1.44	3.07	2.63	2.23

Valuations

Year	2020A	2021E	2022E	2023E
EV/DACF	5.0x	5.4x	3.9x	4.4x
P/NAV MG	63.0%	-	-	-

Supplemental Data

Year	2020A	2021E	2022E	2023E
WTI (US\$/bbl)	39.50	67.75	70.00	65.00
AECO (C\$/mcf)	2.25	3.65	3.55	2.75
FX (US\$/C\$)	0.75	0.80	0.80	0.81
H. Hub (US\$/mcf)	2.00	3.85	3.85	3.15

Current dividend (and yield) calculation excludes special dividend of \$1.25/sh. 12-month dividend includes base dividend plus special dividend.

All figures in C\$, unless otherwise specified

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Exhibit 1. Revised Annual Estimates

Production	Guidance	2021E			Guidance	2022E			2023E		
		New	Old	% Chg		New	Old	% Chg	New	Old	% Chg
Average Production [BOE/d]	442.5k	441,171	442,420	(0%)	500k	503,825	504,560	(0%)	514,258	513,560	0%
% Natural Gas		78%	78%	0%	77%	77%	77%	(0%)	78%	78%	(0%)
Financial (\$mm)											
Revenue		\$5,111	\$5,130	(0%)		\$5,963	\$5,961	0%	\$4,947	\$4,930	0%
Cash Flow (Non-IFRS)		\$2,988	\$3,002	(0%)		\$3,692	\$3,687	0%	\$2,940	\$2,927	0%
Capex*	\$1,375	\$1,400	\$1,400	-	\$1,125	\$1,150	\$1,150	-	\$1,280	\$1,280	-
Ending Net Debt		\$903	\$889	2%		(\$964)	(\$1,411)	(32%)	(\$2,360)	(\$2,821)	(16%)
CFPS (diluted)		\$9.46	\$9.51	(0%)		\$11.02	\$11.01	0%	\$8.78	\$8.74	0%
DPS		\$1.46	\$1.46	-		\$2.05	\$0.72	185%	\$0.80	\$0.72	11%
Netbacks (\$/BOE)											
Revenue		\$31.74	\$31.77	(0%)		\$32.43	\$32.37	0%	\$26.35	\$26.30	0%
Hedging Gains/(Loss)		(\$2.11)	(\$2.11)	-		(\$0.88)	(\$0.87)	-	\$0.02	\$0.02	-
Royalties		(\$2.23)	(\$2.23)	(0%)		(\$2.63)	(\$2.62)	0%	(\$2.13)	(\$2.13)	0%
% Revenue		7%	7%	(0%)		8%	8%	0%	8%	8%	0%
Operating		(\$3.74)	(\$3.74)	(0%)		(\$3.75)	(\$3.75)	(0%)	(\$3.50)	(\$3.50)	0%
Transportation		(\$4.22)	(\$4.22)	-		(\$4.35)	(\$4.35)	-	(\$4.35)	(\$4.35)	-
Operating Netback		\$19.45	\$19.48	(0%)		\$20.82	\$20.77	0%	\$16.39	\$16.35	0%
G&A (Cash)		(\$0.56)	(\$0.56)	0%		(\$0.46)	(\$0.46)	0%	(\$0.45)	(\$0.45)	(0%)
Interest Expense		(\$0.27)	(\$0.27)	0%		(\$0.26)	(\$0.26)	0%	(\$0.26)	(\$0.26)	(0%)
Income / Capital Tax		\$0.00	\$0.00	-		\$0.00	\$0.00	-	\$0.00	\$0.00	-
Other		(\$0.06)	(\$0.06)	0%		(\$0.03)	(\$0.03)	(0%)	(\$0.03)	(\$0.03)	-
Cash Netback		\$18.56	\$18.59	(0%)		\$20.08	\$20.02	0%	\$15.66	\$15.61	0%

Source: Company reports, TD Securities Inc.

Exhibit 2. NAV Summary

2P Reserves	Reserves	NPV (\$mm)	NPV/BOE	(\$/Share)
mmBOE	4,117.6	\$17,494	\$4.25	\$52.21
Net Undeveloped Land	000's Acres	\$/acre	Land Value (\$mm)	Land Value (per share)
WCSB Conventional	1,961	\$425	\$834	\$2.49
Total Other Assets			\$1,287	\$3.84
Hedging Gain/Loss			(\$157)	(\$0.47)
Liabilities (\$mm)			(\$mm)	(per share)
Net Debt (\$mm)			(\$903)	(\$2.69)
			(\$mm)	(per share)
NAV_{BD}			\$17,766	\$53.07
NAV_{MG}			\$24,285	\$72.53

Net debt is YE-2021E.

Source: Company reports, TD Securities Inc.



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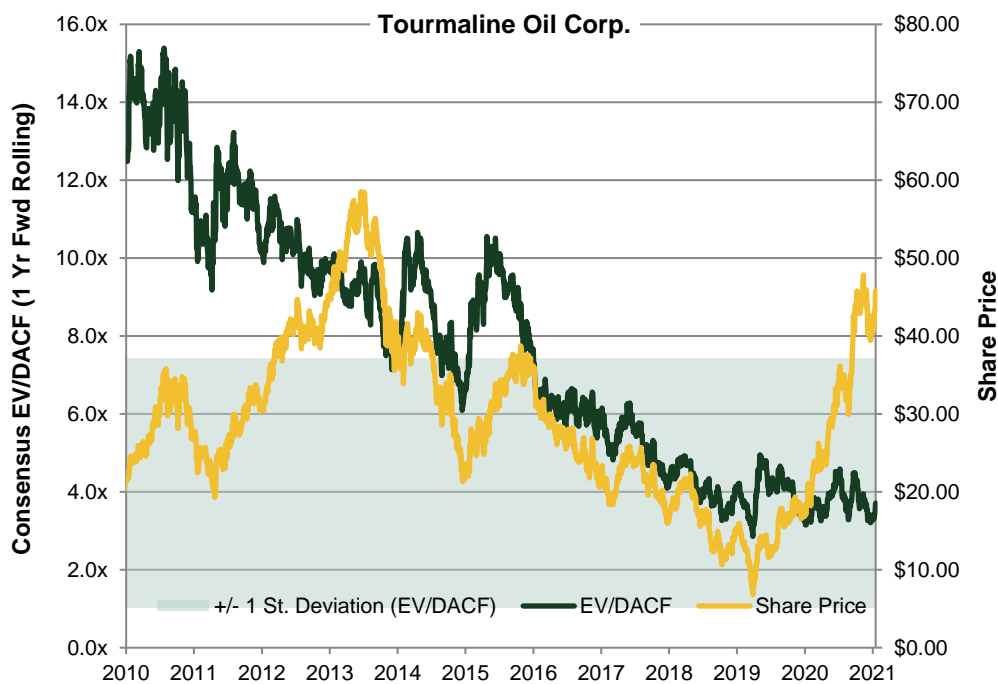
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Valuation

TOU is trading at a 2022E EV/DACF multiple of 3.9x, which is slightly above its gas-weighted WCSB peers (3.6x) and the Appalachian peers (3.6x). It is trading in line with its Bloomberg consensus three-year average of ~4.0x. Given the combination of growth, significant FCF (after all capex), and low financial leverage, we believe a premium valuation is justified.

Exhibit 3. Tourmaline Historical EV/DACF (12-month Forward Consensus)



Source: Company reports, TD Securities Inc.

Exhibit 4. Peer Group Comparison

	Yield	D/CF	% Drawn	All-In PoR	BOE/d			EV/DACF	
	2022E	2022E	2022E	2022E**	2022E	Gas	Gwth*	2022E	2023E
Canadian Gas Weighted									
AAV	0%	0.0x	0%	51%	54,038	90%	9%	4.1x	4.5x
ARX	3%	0.2x	0%	53%	343,795	61%	2%	3.5x	3.2x
BIR	1%	0.3x	15%	43%	79,290	78%	(0%)	3.3x	3.6x
CR	0%	1.2x	0%	39%	32,321	79%	19%	3.7x	3.3x
KEL	0%	-0.2x	0%	82%	30,000	62%	39%	4.2x	4.7x
NVA	0%	0.4x	0%	53%	66,831	62%	27%	3.6x	2.5x
PEY	6%	1.2x	45%	68%	107,656	87%	16%	3.6x	3.4x
SDE	0%	0.4x	4%	55%	70,061	59%	17%	2.6x	2.2x
TOU	4%	-0.3x	0%	49%	503,825	77%	8%	3.9x	4.4x
Median	0%	0.3x	0%	53%	70,061	77%	16%	3.6x	3.4x
Canadian Oil Weighted									
BTE	0%	1.1x	0%	49%	82,279	17%	3%	4.0x	3.5x
VET	1%	0.7x	25%	31%	89,762	48%	4%	3.1x	2.8x
WCP	3%	0.3x	0%	46%	131,228	27%	12%	4.0x	4.0x
ERF	1%	0.3x	0%	46%	122,525	38%	12%	3.5x	3.1x
CPG	2%	0.7x	0%	53%	136,058	18%	2%	3.2x	3.2x
Median	1%	0.7x	0%	46%	122,525	27%	4%	3.5x	3.2x
Permian									
PDCE	1%	0.1x	0%	37%	200,427	40%	7%	3.0x	2.7x
FANG	4%	0.7x	0%	54%	371,323	20%	0%	4.9x	4.8x
PXD	8%	0.1x	0%	87%	639,181	20%	(1%)	6.1x	6.1x
OVV	1%	0.7x	0%	48%	526,685	49%	1%	3.4x	3.4x
EOG	3%	-0.3x	0%	61%	886,781	30%	7%	5.7x	5.1x
Median	3%	0.1x	0%	54%	526,685	30%	1%	4.9x	4.8x
Marcellus Peers									
RRC	0%	1.3x	0%	30%	365,297	70%	1%	4.6x	5.2x
AR	0%	0.6x	0%	34%	570,095	69%	0%	3.6x	3.3x
EQT	2%	1.4x	0%	52%	941,371	94%	(5%)	3.7x	3.5x
Median	0%	1.3x	0%	34%	570,095	70%	0%	3.7x	3.5x
Median	1%	0.4x	0%	50%	133,643	60%	6%	3.6x	3.4x

*Y/Y Growth Per Share, **(Capex + Dividend) / CF

Source: Company reports, TD Securities Inc.

Justification of Target Price

Our target price combines 1.0x our modified growth NAV at a 50% weighting. The other 50% is based on an EV/DACF multiple of 5.0x TOU's 2023E DACF (excluding TPZ dividends) plus TPZ equity ownership.

Key Risks to Target Price

Key risks associated with our target price include business risks of the company and industry, including but not limited to: loss of key employees; drilling success; volatile commodity prices; operating costs; capital cost overruns; product supply and demand; financing/access to capital; government regulations; legislation; royalties; taxes; exchange rates; interest rates; and environment and weather concerns. There is also no guarantee that current bank credit facilities will be renewed at current levels.

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Exhibit 6. Summary

Company Overview				
Market Capitalization (\$mm)	\$15,429			
Net Debt (\$mm)	\$903			
Enterprise Value (\$mm)	\$16,331			
Current Price	\$46.05			
52 Week Low/High	\$18.11	\$48.14		
Current Yield	1.7%			

Production				
	2020A	2021E	2022E	2023E
Crude Oil & NGLs (bbl/d)	64,496	98,245	113,806	114,162
Heavy Oil (bbl/d)	0	0	0	0
Total Liquids (bbl/d)	64,496	98,245	113,806	114,162
Natural Gas (mcf/d)	1,476,613	2,057,559	2,340,113	2,400,575
Total Production (BOE/d)	310,598	441,171	503,825	514,258
% Gas	79%	78%	77%	78%

Growth				
	2020A	2021E	2022E	2023E
Y/Y Production Growth	7%	42%	14%	2%
Y/Y Production Per Share Growth	6%	23%	8%	2%
Y/Y DAPPS Growth	3%	62%	19%	15%

Pricing Assumptions				
	2020A	2021E	2022E	2023E
WTI (US\$/bbl)	\$39.50	\$67.75	\$70.00	\$65.00
Edmonton Par (C\$/bbl)	\$46.25	\$80.00	\$82.50	\$75.50
WCS (C\$/bbl)	\$36.00	\$68.50	\$70.50	\$64.50
Nymex (US\$/mcf)	\$2.00	\$3.85	\$3.85	\$3.15
AECO (C\$/mcf)	\$2.25	\$3.65	\$3.55	\$2.75
Exchange Rate (US\$/C\$)	\$0.75	\$0.80	\$0.80	\$0.81

Corporate Netback (\$/BOE)				
	2020A	2021E	2022E	2023E
Revenue	\$18.84	\$31.74	\$32.43	\$26.35
Hedging	\$0.71	(\$2.11)	(\$0.88)	\$0.02
Royalties	(\$0.58)	(\$2.23)	(\$2.63)	(\$2.13)
Transportation	(\$4.49)	(\$4.22)	(\$4.35)	(\$4.35)
Operating	(\$3.15)	(\$3.74)	(\$3.75)	(\$3.50)
Operating Netback	\$11.33	\$19.45	\$20.82	\$16.39
G&A	(\$0.56)	(\$0.56)	(\$0.46)	(\$0.45)
Interest Expense	(\$0.44)	(\$0.27)	(\$0.26)	(\$0.26)
Cash Taxes and Other	\$0.14	(\$0.06)	(\$0.03)	(\$0.03)
Cash Flow Netback	\$10.46	\$18.56	\$20.08	\$15.66

Per Share Metrics				
	2020A	2021E	2022E	2023E
WA Outstanding Shares (diluted)	272.7	315.8	335.0	335.0
CFPS (diluted)	\$4.35	\$9.46	\$11.02	\$8.78
EPS (diluted)	-	-	-	-
2P NAV	\$53.07			
Modified Growth NAV	\$72.53			

Key Valuation Ratios				
	2020A	2021E	2022E	2023E
P/CF (x)	3.4x	4.9x	4.2x	5.2x
EV/DACF (x)	5.0x	5.4x	3.9x	4.4x
EV/Production (\$000/BOE/d)	\$19,833	\$37,018	\$28,710	\$25,412
EV/1P Reserves (\$/BOE)	\$3.64	-	-	-
EV/2P Reserves (\$/BOE)	\$1.50	-	-	-
P/NAV (2P)	87%			
P/NAV (Modified Growth)	63%			
ROCE	-	-	-	-

Leverage				
	2020A	2021E	2022E	2023E
Bank Debt/(Cash) (\$mm)	995	611	(1,256)	(2,652)
Term Debt (\$mm)	947	448	448	448
Net Debt (\$mm)	1,791	903	(964)	(2,360)
Net Debt-CF (x)	1.5x	0.3x	-0.3x	-0.8x
Credit Facility (\$mm)	1,850	1,850	1,850	1,850
% Drawn	54%	33%	0%	0%
Dividend PoR (%) (Pre-DRIP)	11%	15%	18%	9%
Dividend PoR (%) (Post-DRIP)	11%	15%	18%	9%
Corporate PoR (%) (Pre-DRIP)	88%	62%	49%	53%
Corporate PoR (%) (Post-DRIP)	88%	62%	49%	53%

Cash Flow Summary (\$mm)				
	2020A	2021E	2022E	2023E
Funds Flow from Operations	1,186	2,988	3,692	2,940
Debt-Adjusted Cash Flow	1,236	3,032	3,740	2,988
Investing Activities				
Exploration and Development	(912)	(1,400)	(1,150)	(1,280)
Acquisitions/Divestitures	(698)	(128)	0	0
Total Capital Expenditures	(1,610)	(1,528)	(1,150)	(1,280)
Financing Activities				
Change in Net Debt	35	(888)	(1,867)	(1,396)
Dividends	(132)	(456)	(676)	(264)
DRIP	0	0	0	0
Other Share Issue Proceeds	26	26	0	0
EBITDA	1,236	3,032	3,740	2,988

CFPS (diluted)				
	2020A	2021E	2022E	2023E
Q1	\$1.05	\$2.11	\$3.31	\$2.55
Q2	\$0.83	\$1.89	\$2.59	\$2.02
Q3	\$1.03	\$2.32	\$2.48	\$1.98
Q4	\$1.44	\$3.07	\$2.63	\$2.23
Annual	\$4.35	\$9.46	\$11.02	\$8.78

Quarterly Production (BOE/d)				
	2020A	2021E	2022E	2023E
Q1	308,349	411,579	504,057	504,414
Q2	299,369	410,339	513,795	521,211
Q3	298,202	456,489	496,291	510,990
Q4	336,325	485,299	501,270	520,277
Annual	310,598	441,171	503,825	514,258

*Current yield excludes special dividends.

Source: Company reports, TD Securities Inc. estimates



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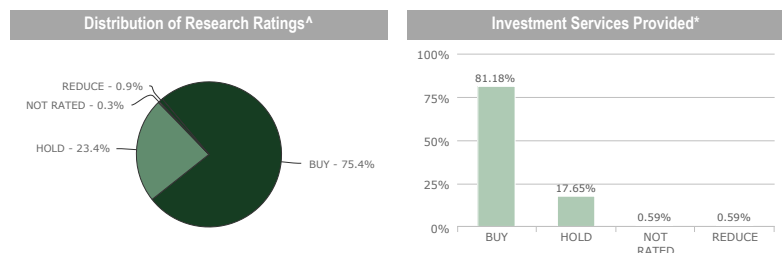
Company	Ticker	Disclosures
Tourmaline Oil Corp.	TOU-T	9

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Current as of: January 18, 2022

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Action Note

Equity Research

January 18, 2022

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