

Action Note

Equity Research

November 6, 2020

Energy Producers - Junior & Intermediate

TORC Oil & Gas Ltd.

(TOG-T) C\$1.52

Q3/20 in Line; Focus on FCF Maximization, Capital Preservation
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Event

TORC announces Q3/20 financial and operating results.

Impact: NEUTRAL

Q3/20 production of 25.0 mBOE/d was in line with TD (24.9 mBOE/d) and consensus (24.9 mBOE/d); CFPS of \$0.16 was also in line with TD (\$0.16) and consensus (\$0.16). Most notably, TORC was able to keep Q3/20 production flat, while spending only \$6.2mm and generating \$35.6mm in cash flow. Q4/20 production is also expected to average 24.9 mBOE/d on a \$7.5mm capital program, further reducing TORC's net debt without sacrificing the production base.

2021 budget expected in mid-December; we currently forecast that TORC will maintain its 2020 exit production target of 25.0 mBOE/d, with a modest \$120mm capital program. This should further pay down debt, ultimately achieving a Q4/21 net debt/cash flow ratio of 2.1x, with no deterioration in the company's productive capacity, in our view. As a function of a decreased activity level in 2020, the corporate decline rate now stands at 20%, which provides us further confidence in the company's ability to sustain current production levels with WTI prices as low as US\$37.50/bbl.

There is little to report operationally, given the company's muted 2020 development program (currently at \$80mm, down from the \$190mm contemplated earlier this year). That said, this has resulted in an improved decline rate (20%) and the preservation of the company's light oil inventory (400 conventional wells in Southeast Saskatchewan, 325 unconventional wells between the Midale and the Torquay, and 290 wells in the Cardium).

TD Investment Conclusion

Although the quarter was in line with expectations, we highlight the following corporate strengths that support our investment thesis. TORC provides investors with the ability to allocate capital across a balanced portfolio of assets in varying development stages. Although the balance sheet is above TORC's historical range, it is still below the peer-group average as TORC was quick to suspend the dividend and capital program as dictated by the collapse in oil prices earlier this year. Our estimates are largely unchanged, and we are maintaining our \$2.50 target price and BUY recommendation.

| | |
|----------------------------------|----------------|
| Recommendation: | BUY |
| Risk: | HIGH |
| 12-Month Target Price: | C\$2.50 |
| 12-Month Dividend (Est.): | C\$0.00 |
| 12-Month Total Return: | 64.5% |

Market Data (C\$)

| | |
|-------------------------|-----------------|
| Current Price | C\$1.52 |
| 52-Week Range | \$0.41 - \$4.78 |
| Mkt Cap (f.d.) (\$mm) | \$338.4 |
| Mkt Cap (basic) (\$mm) | \$338.4 |
| Float Cap (\$mm) | \$234.4 |
| Current Dividend | \$0.00 |
| Dividend Yield | 0.0% |
| Avg. Daily Trading Vol. | 1,992,457 |

Financial Data (C\$)

| | |
|-------------------------|----------|
| Fiscal Y-E | December |
| Shares O/S (f.d)(mm) | 222.6 |
| Shares O/S (basic) (mm) | 222.6 |
| Float Shares (mm) | 154.2 |
| Net Debt (\$mm) | \$335.0 |
| Net Debt/Total Cap | 40.4% |
| NAVPS | \$2.27 |

Estimates (C\$)

| Year | 2018A | 2019A | 2020E | 2021E |
|-------------------|-------|-------|-------|-------|
| CFPS (f.d) | 1.36 | 1.37 | 0.54 | 0.65 |
| CFPS (f.d) (old) | - | - | - | 0.66 |
| Oil & NGLs (mb/d) | 22.3 | 25.1 | 22.9 | 22.1 |
| Gas (MMcf/d) | 18.2 | 19.6 | 17.4 | 17.2 |
| MBOE/d | 25.3 | 28.3 | 25.8 | 25.0 |

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

| Year | 2018A | 2019A | 2020E | 2021E |
|------|-------|-------|-------|-------|
| Q1 | 0.32 | 0.34 | 0.21 | 0.16 |
| Q2 | 0.37 | 0.36 | 0.03 | 0.16 |
| Q3 | 0.44 | 0.33 | 0.16 | 0.16 |
| Q4 | 0.23 | 0.33 | 0.14 | 0.17 |

Valuations

| Year | 2018A | 2019A | 2020E | 2021E |
|----------|-------|-------|-------|-------|
| EV/DACF | 4.6x | 3.5x | 5.0x | 4.1x |
| P/NAV MG | - | 66.9% | - | - |

Supplemental Data

| Year | 2018A | 2019A | 2020E | 2021E |
|-------------------|-------|-------|-------|-------|
| WTI (US\$/bbl) | 64.83 | 57.03 | 38.75 | 42.00 |
| AECO (C\$/mcf) | 1.53 | 1.79 | 2.25 | 2.85 |
| FX (US\$/C\$) | 0.77 | 0.75 | 0.74 | 0.76 |
| H. Hub (US\$/mcf) | 3.13 | 2.56 | 2.00 | 2.90 |

All figures in C\$, unless otherwise specified



Company Profile

TORC Oil & Gas Ltd. is engaged in the acquisition, development, and production of oil and natural gas in the Western Canadian Sedimentary Basin. The company primarily focuses on Cardium development opportunities in WC AB, a low-decline Mississippian asset in SE SK, and the Torquay light oil play, also in SE SK.

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Exhibit 1. Q3/20 Summary

| Production | Q3/20A | Q3/20E | Variance | Netbacks (\$/BOE) | Q3/20A | Q3/20E | Variance |
|--------------------------|---------------|---------------|-------------|--------------------------|--------------|--------------|-------------|
| Oil (bbl/d) | 20,616 | 20,776 | -0.8% | Gross Revenue | 39.50 | 39.38 | 0.3% |
| NGLs (bbl/d) | 1,466 | 1,400 | 4.7% | Hedging Gains (Losses) | (0.05) | (0.35) | -86.3% |
| Natural Gas (mcf/d) | 17,479 | 16,279 | 7.4% | Royalties | (6.25) | (6.30) | -0.9% |
| Corporate (BOE/d) | 24,995 | 24,889 | 0.4% | Transportation Costs | (1.06) | (1.10) | -3.2% |
| % Liquids | 88% | 89% | | Operating Costs | (13.65) | (13.50) | 1.1% |
| Financial | | | | Operating Netback | 18.48 | 18.13 | 1.9% |
| Cash Flow (\$mm) | 35.6 | 35.1 | 1.6% | General & Administrative | (0.99) | (1.20) | -17.6% |
| CFPS (fd) | 0.16 | 0.16 | 1.5% | Interest Expense | (1.97) | (1.40) | 40.3% |
| E&D Capex (\$mm) | 6.2 | 4.5 | 36.8% | Cash Taxes/Other | (0.04) | (0.22) | -81.5% |
| Total Capex (\$mm) | 6.2 | 4.5 | 38.1% | Cash Netback | 15.49 | 15.31 | 1.2% |
| Net Debt (\$mm) | 359.7 | 351.6 | 2.3% | | | | |

Source: Company reports, TD Securities Inc. estimates

Outlook

We have updated our estimates to reflect Q3/20 results, along with additional minor adjustments to our forecasts.

Exhibit 2. Estimate Revisions

| Production | Q4/20E | | | 2020E | | | 2021E | | |
|--------------------------|---------------|---------------|-------------|---------------|---------------|-------------|---------------|---------------|--------------|
| | Revised | Previous | Variance | Revised | Previous | Variance | Revised | Previous | Variance |
| Oil (bbl/d) | 20,693 | 20,566 | 0.6% | 21,500 | 21,509 | 0.0% | 20,688 | 20,561 | 0.6% |
| NGLs (bbl/d) | 1,365 | 1,473 | -7.4% | 1,432 | 1,443 | -0.7% | 1,441 | 1,471 | -2.1% |
| Natural Gas (mcf/d) | 17,280 | 17,132 | 0.9% | 17,407 | 17,068 | 2.0% | 17,157 | 17,109 | 0.3% |
| Corporate (BOE/d) | 24,938 | 24,895 | 0.2% | 25,834 | 25,796 | 0.1% | 24,988 | 24,884 | 0.4% |
| % Liquids | 88% | 89% | | 89% | 89% | | 89% | 89% | |
| Financial | | | | | | | | | |
| Cash Flow (\$mm) | 32.2 | 32.0 | 0.6% | 120.0 | 119.2 | 0.6% | 144.0 | 145.7 | -1.2% |
| DACF (\$mm) | 35.6 | 34.9 | 2.0% | 133.8 | 131.3 | 2.0% | 157.1 | 156.7 | 0.2% |
| CFPS (fd) | 0.14 | 0.14 | 0.6% | 0.54 | 0.54 | 0.6% | 0.65 | 0.66 | -1.3% |
| E&D Capex (\$mm) | 7.5 | 9.2 | -18.0% | 80.0 | 80.0 | 0.0% | 120.0 | 110.0 | 9.1% |
| Total Capex (\$mm) | 7.5 | 9.2 | -18.0% | 84.4 | 84.3 | 0.1% | 120.0 | 110.0 | 9.1% |
| Net Debt (\$mm) | 335.0 | 328.8 | 1.9% | 335.0 | 328.8 | 1.9% | 311.1 | 293.1 | 6.1% |
| % Undrawn Credit | 27% | 26% | | 27% | 26% | | 32% | 35% | |
| Netbacks (\$/BOE) | | | | | | | | | |
| Gross Revenue | 37.17 | 37.06 | 0.3% | 35.01 | 34.95 | 0.2% | 40.31 | 40.06 | 0.6% |
| Hedging Gains (Losses) | 0.14 | 0.14 | -0.2% | 0.54 | 0.47 | 15.4% | 0.00 | 0.00 | - |
| Royalties | (5.95) | (5.93) | 0.3% | (5.63) | (5.64) | -0.1% | (6.55) | (6.51) | 0.6% |
| Transportation Costs | (1.10) | (1.10) | 0.0% | (1.09) | (1.10) | -0.8% | (1.25) | (1.25) | 0.0% |
| Operating Costs | (13.50) | (13.50) | 0.0% | (13.49) | (13.45) | 0.3% | (13.75) | (13.50) | 1.9% |
| Operating Netback | 16.77 | 16.67 | 0.6% | 15.35 | 15.23 | 0.7% | 18.76 | 18.80 | -0.2% |
| General & Administrative | (1.20) | (1.20) | -0.2% | (1.11) | (1.16) | -4.5% | (1.32) | (1.32) | -0.4% |
| Interest Expense | (1.51) | (1.30) | 16.5% | (1.46) | (1.27) | 14.9% | (1.44) | (1.21) | 18.9% |
| Cash Taxes/Other | (0.04) | (0.22) | -81.4% | (0.09) | (0.17) | - | (0.22) | (0.22) | -0.4% |
| Cash Netback | 14.02 | 13.95 | 0.5% | 12.69 | 12.63 | 0.5% | 15.79 | 16.05 | -1.6% |

Source: Company reports, TD Securities Inc. estimates

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Valuation

TORC is currently trading at a P/NAV_{MG} of 67% and an EV/2021E DACF multiple of 4.1x; these compare with averages of 109% and 4.4x, respectively, for the >60% oil-weighted production (2020E) peer group under coverage. In our view, TOG should trade at a premium to the peer group average, given its asset quality, sustainability profile, and track record.

Exhibit 3. Relative Valuation

| | P/NAV _{BD} | P/NAV _{MG} ^{***} | EV/DACF* | | EV/BOEPD | P/CF | D/CF | Payout** | % Gas |
|-----------------------------|---------------------|------------------------------------|-------------|-------------|-----------------|-------------|-------------|------------|------------|
| | | | (2020E) | (2021E) | (2020E) | (2020E) | (2020E) | (2020E) | (2020E) |
| TOG | 79% | 67% | 5.0x | 4.1x | \$26,067 | 2.8x | 2.8x | 81% | 11% |
| BNE | 328% | 328% | 6.8x | 5.9x | \$31,169 | 1.3x | 8.3x | 75% | 34% |
| BTE | - | 15% | 5.7x | 4.9x | \$29,171 | 1.3x | 6.3x | 86% | 18% |
| CPG | 94% | 94% | 3.5x | 4.3x | \$25,946 | 1.1x | 2.7x | 83% | 9% |
| TOG | 79% | 67% | 5.0x | 4.1x | \$26,067 | 2.8x | 2.8x | 81% | 11% |
| TVE | 66% | 66% | 3.0x | 2.7x | \$17,467 | 1.6x | 1.7x | 82% | 39% |
| VII | 108% | 106% | 4.0x | 3.9x | \$20,567 | 2.0x | 2.7x | 82% | 43% |
| WCP | 104% | 102% | 4.6x | 4.9x | \$31,460 | 2.5x | 2.6x | 66% | 16% |
| Average Oil-Weighted | 125% | 109% | 4.6x | 4.4x | \$26,508 | 1.8x | 3.6x | 86% | 28% |

*EV based on forecast year-end net debt and shares outstanding, **Payout = (Capex+Dividend-DRIP)/CF.

***Our modified growth NAV (NAV_{MG}), assumes free cash flow (i.e. after 2P FDC, interest, G&A and dividends) is reinvested in company specific internal development opportunities for up to a five year period.

Source: Company reports, TD Securities Inc. estimates

Justification of Target Price

Our \$2.50 target price is based on a 5.5x 2021E EV/DACF multiple (50% weighting) and 1.0x our NAV_{MG} of \$2.27/share (50% weighting).

Key Risks to Target Price

Key risks associated with our target price include business risks of the company and industry, including 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.

In addition to industry risks, key near-term risks specific to TORC include: 1) production base highly levered to Canadian light oil pricing; 2) exploration risk in southern Alberta; 3) mixed operatorship on southeast Saskatchewan assets; and 4) there is no guarantee that current bank credit facilities will be renewed at current levels or that undrawn credit capacity will be available to repay other creditors in the future.

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Exhibit 4. Summary

| Company Overview | | | | |
|-----------------------------------|----------------|----------------|----------------|----------------|
| Market Capitalization (\$mm) | \$338 | | | |
| Net Debt (\$mm) | \$335 | | | |
| Enterprise Value (\$mm) | \$673 | | | |
| Current Price | \$1.52 | | | |
| 52 Week Low/High | \$0.41 | \$4.78 | | |
| Current Yield | 0.0% | | | |
| Production | | | | |
| | 2018A | 2019A | 2020E | 2021E |
| Crude Oil (bbl/d) | 20,943 | 23,507 | 21,500 | 20,688 |
| NGLs (bbl/d) | 1,365 | 1,556 | 1,432 | 1,441 |
| Total Liquids (bbl/d) | 22,308 | 25,062 | 22,932 | 22,129 |
| Natural Gas (mcf/d) | 18,183 | 19,588 | 17,407 | 17,157 |
| Total Production (BOE/d) | 25,338 | 28,327 | 25,834 | 24,988 |
| % Gas | 12% | 12% | 11% | 11% |
| Production Hedged (%) | - | - | 11% | 0% |
| Growth | | | | |
| | 2018A | 2019A | 2020E | 2021E |
| Y/Y Production Growth | 21% | 12% | -9% | -3% |
| Y/Y Production Per Share Growth | 11% | 5% | -10% | -3% |
| Y/Y DAPPS Growth | 5% | -2% | -29% | -11% |
| Pricing Assumptions | | | | |
| | 2018A | 2019A | 2020E | 2021E |
| WTI (US\$/bbl) | \$64.83 | \$57.03 | \$38.75 | \$42.00 |
| Edmonton Par (C\$/bbl) | \$69.14 | \$69.06 | \$45.25 | \$48.75 |
| WCS (C\$/bbl) | \$49.90 | \$58.12 | \$34.25 | \$37.00 |
| Nymex (US\$/mcf) | \$3.13 | \$2.56 | \$2.00 | \$2.90 |
| AECO (C\$/mcf) | \$1.53 | \$1.79 | \$2.25 | \$2.85 |
| Exchange Rate (US\$/C\$) | \$0.77 | \$0.75 | \$0.74 | \$0.76 |
| Corporate Netback (\$/BOE) | | | | |
| | 2018A | 2019A | 2020E | 2021E |
| Revenue | \$58.50 | \$56.22 | \$35.01 | \$40.31 |
| Hedging | (\$0.35) | \$0.00 | \$0.54 | \$0.00 |
| Royalties | (\$10.27) | (\$9.70) | (\$5.63) | (\$6.55) |
| Transportation | (\$1.30) | (\$1.30) | (\$1.09) | (\$1.25) |
| Operating | (\$12.65) | (\$13.04) | (\$13.49) | (\$13.75) |
| Operating Netback | \$33.93 | \$32.18 | \$15.35 | \$18.76 |
| G&A | (\$1.33) | (\$1.26) | (\$1.11) | (\$1.32) |
| Interest Expense | (\$1.37) | (\$1.41) | (\$1.46) | (\$1.44) |
| Cash Taxes and Other | (\$0.59) | (\$0.18) | (\$0.09) | (\$0.22) |
| Cash Flow Netback | \$30.64 | \$29.32 | \$12.69 | \$15.79 |
| Per Share Metrics | | | | |
| | 2018A | 2019A | 2020E | 2021E |
| WA Outstanding Shares (diluted) | 208.5 | 222.1 | 222.4 | 222.6 |
| CFPS (diluted) | \$1.36 | \$1.37 | \$0.54 | \$0.65 |
| EPS (diluted) | \$1.92 | (\$0.17) | (\$4.19) | (\$0.05) |
| 2P NAV | | \$1.92 | | |
| Modified Growth NAV | | \$2.27 | | |
| Key Valuation Ratios | | | | |
| | 2018A | 2019A | 2020E | 2021E |
| P/CF (x) | 1.1x | 1.1x | 2.8x | 2.4x |
| EV/DACF (x) | 4.6x | 3.5x | 5.0x | 4.1x |
| EV/Production (\$000/BOE/d) | \$53.4 | \$39.2 | \$26.1 | \$26.0 |
| EV/1P Reserves (\$/BOE) | \$14.98 | \$12.29 | \$7.46 | \$7.19 |
| EV/2P Reserves (\$/BOE) | \$9.76 | \$8.01 | \$4.86 | \$4.69 |
| P/NAV (2P) | | 79% | | |
| P/NAV (Modified Growth) | | 67% | | |
| ROCE | 1% | -2% | nmf | -1% |
| Leverage | | | | |
| | 2018A | 2019A | 2020E | 2021E |
| Bank Debt (\$mm) | \$335 | \$304 | \$311 | \$287 |
| Term Debt (\$mm) | \$0 | \$0 | \$0 | \$0 |
| Net Debt (\$mm) | \$405 | \$343 | \$335 | \$311 |
| Net Debt-CF (x) | 1.4x | 1.1x | 2.8x | 2.2x |
| Credit Facility (\$mm) | \$500 | \$500 | \$425 | \$425 |
| % Drawn | 67% | 61% | 73% | 68% |
| Dividend PoR (%) (Pre-DRIP) | 12% | 14% | 14% | 0% |
| Dividend PoR (%) (Post-DRIP) | 6% | 9% | 14% | 0% |
| Corporate PoR (%) (Pre-DRIP) | 78% | 74% | 81% | 83% |
| Corporate PoR (%) (Post-DRIP) | 72% | 69% | 81% | 83% |
| Cash Flow Summary (\$mm) | | | | |
| | 2018A | 2019A | 2020E | 2021E |
| Funds Flow from Operations | \$283 | \$303 | \$120 | \$144 |
| Debt-Adjusted Cash Flow | \$296 | \$318 | \$134 | \$157 |
| Investing Activities | | | | |
| Exploration and Development | (\$185) | (\$180) | (\$80) | (\$120) |
| Acquisitions/Divestitures | (\$292) | (\$8) | (\$4) | \$0 |
| Total Capital Expenditures | (\$477) | (\$188) | (\$84) | (\$120) |
| Financing Activities | | | | |
| Net Change in Debt | \$93 | (\$31) | \$7 | (\$24) |
| Dividends | (\$35) | (\$43) | (\$17) | \$0 |
| DRIP | \$17 | \$15 | \$0 | \$0 |
| Other / Share Issue Proceeds | (\$17) | (\$27) | (\$6) | \$0 |
| EBITDA | \$257 | \$302 | \$124 | \$149 |
| CFPS (diluted) | | | | |
| | 2018A | 2019A | 2020E | 2021E |
| Q1 | \$0.32 | \$0.34 | \$0.21 | \$0.16 |
| Q2 | \$0.37 | \$0.36 | \$0.03 | \$0.16 |
| Q3 | \$0.44 | \$0.33 | \$0.16 | \$0.16 |
| Q4 | \$0.23 | \$0.33 | \$0.14 | \$0.17 |
| Annual | \$1.36 | \$1.37 | \$0.54 | \$0.65 |
| Quarterly Production (BOE/d) | | | | |
| | 2018A | 2019A | 2020E | 2021E |
| Q1 | 22,894 | 28,267 | 28,515 | 25,589 |
| Q2 | 23,059 | 28,326 | 24,905 | 24,842 |
| Q3 | 27,160 | 28,337 | 24,995 | 24,776 |
| Q4 | 28,163 | 28,378 | 24,938 | 24,758 |
| Annual | 25,338 | 28,327 | 25,834 | 24,988 |

Source: Company reports, TD Securities Inc. estimates



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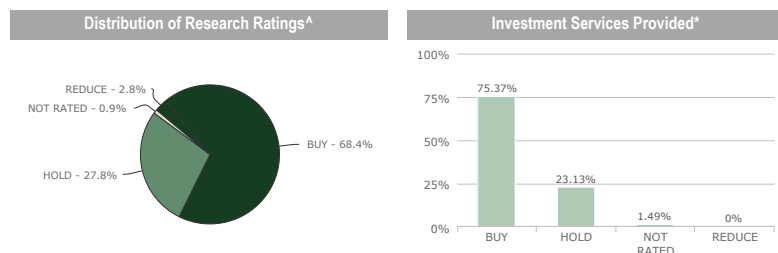
| Company | Ticker | Disclosures |
|---------------------|--------|-------------|
| TORC Oil & Gas Ltd. | TOG-T | n/a |

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Current as of: November 6, 2020

[^] Percentage of subject companies under each rating category: BUY (covering ACTION LIST BUY, BUY and SPECULATIVE BUY ratings), HOLD, and REDUCE (covering TENDER and REDUCE ratings) and NOT RATED (covering UNDER REVIEW, SUSPENDED, and NOT RATED).

^{*} Percentage of subject companies within each of the four categories (BUY, HOLD, REDUCE, and NOT RATED) for which TD Securities Inc. has provided investment banking services within the last 12 months.

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BUY: The stock's total return is expected to exceed a minimum of 10% (with higher thresholds for less liquid, more risky securities) over the next 12 months.

SPECULATIVE BUY: The stock's total return is expected to exceed a minimum of 30% over the next 12 months (with higher thresholds for less liquid securities); however, there is material event risk associated with the investment that could result in a significant loss.

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HOLD: The stock's total return is expected to be between 0% and 10%, (with higher thresholds for less liquid, more risky securities) over the next 12 months.

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Action Note

Equity Research

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