Sunoco LP (SUN)

Updated May 11th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$26	**5 Year CAGR Estimate:**	21.9%	**Quality Percentile:**	N/A
Fair Value Price:	$33	**5 Year Growth Estimate:**	4.7%	**Momentum Percentile:**	N/A
% Fair Value:	79%	**5 Year Valuation Multiple Estimate:**	4.9%	**Total Return Percentile:**	N/A
Dividend Yield:	12.3%	**5 Year Price Target**	$42	**Valuation Percentile:**	

Overview & Current Events

Sunoco is a master limited partnership that distributes fuel products through its wholesale, and retail business units. The wholesale unit purchases fuel products from refiners and sells those products to both its own and independently-owned dealers. The retail unit operates stores where fuel products as well as other products (e.g. convenience, food services, etc.) are sold to customers. Sunoco was founded in 2012, is headquartered in Dallas, TX, and is currently valued at $2.7 billion.

Sunoco's most recent quarterly results were announced on February 21. The partnership reported revenues of $3.0 billion (up 5% year over year), adjusted EBITDA totaled $158 million (which means adjusted EBITDA per share of $1.59).

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EBITDA	-	-	-	-	$1.40	$2.51	$3.14	$7.95	$3.34	$3.85	***$4.15***	***$5.22***
DPS	-	-	-	-	-	$1.80	$2.05	$2.68	$3.26	$3.30	***$3.30***	***$4.21***

Sunoco doesn't have a long history, but over the last couple of years its results varied significantly. Sunoco's abnormally high EBITDA during 2015 is an outlier. During 2015 the company benefited from a high spread between oil prices and fuel prices, which has normalized since, but which positively impacted Sunoco's wholesale margins during 2015.

When we exclude 2015, Sunoco's profits grew by relatively consistently since 2013, by eleven percent annually. During 2017 Sunoco's EBITDA per share grew by 15%, despite the issuance of new shares.

Sunoco is able to generate growth through a multitude of factors. Rising sales at existing convenience stores and for its existing wholesale business can drive revenues, but will be less important going forward, as Sunoco has sold more than 1000 of its convenience stores to 7-Eleven (Sunoco now owns about 350 stores). This makes Sunoco more dependent on its fuel wholesale business, where it profits from significant scale. In Texas Sunoco is one of the biggest independent fuel distributors, and Sunoco is also among the top distributors of Chevron, Exxon and Valero branded motor fuel in the rest of the US. Sunoco has been moving its business towards the wholesale / distribution industry with several transactions it has made over the last couple of years (i.e. the 7-Eleven deal, the acquisition of Sunoco LLC). In this industry scale is important, as it allows for higher margins and a better negotiating position versus both suppliers and customers. Total gasoline sales declined steadily since the beginning of the current millennium but bottomed in 2015 and started to rise again over the last two years. This macro shift (towards higher gasoline consumption) should be beneficial for Sunoco going forward, especially since the trend is even stronger in Sunoco's main market, Texas. Sunoco's profits should also be positively impacted by recent refinancing of long term debt at significantly lower rates, which will result in lower interest expenses going forward.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
P/EBITDA	-	-	-	-	-	11.2	13.4	5.5	9.9	7.3	***6.3***	***8.0***
Avg. Yld.	-	-	-	-	-	6.4%	5.1%	6.1%	9.8%	11.8%	***12.3%***	***9.7%***

Sunoco doesn't have a long history as a publicly traded company, but in the last couple of years its valuation has seen wide fluctuations. Right now Sunoco trades at a relatively inexpensive valuation compared to recent years, and its dividend yield is higher than it has been over the last several years.

The low valuation means that there is some potential for multiple expansion (which would drive share prices higher), but Sunoco will likely continue to trade at a single-digit valuation for the foreseeable future due to two reasons. First, after the sale of most of its retail business Sunoco is now less diversified (which makes it riskier investment). Second, rising interest rates pressure income stocks such as Sunoco and other MLP's as investors are shifting some of their holdings into bonds and other interest-bearing investments.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	-	-	-	18.6%	14.4%	9.7%	10.4%	11.1%	13.3%	13.3%	***13.5%***	***14.0%***
Debt/A	-	-	-	50.2%	77.8%	79.5%	37.6%	40.5%	74.8%	73.1%	***70.0%***	***68.0%***
Payout	-	-	-	-	-	71.7%	65.3%	33.7%	97.6%	85.7%	***79.5%***	***80.6%***
Std. Dev.	-	-	-	-	-	21.3%	32.7%	24.7%	41.1%	30.8%	***27.0%***	***26.0%***

Sunoco's relatively young history means that there is not a large amount of data available, and the data through the last couple of years is relatively uneven. Restructuring activities such as acquisitions and asset sales have impacted the company's asset base as well as its debt levels significantly during the last few years.

At the beginning of 2018 Sunoco has issued $2.2 billion in senior notes (at interest rates ranging from 4.9% to 5.9%), the proceeds were, at least partially, used to repay $2.2 billion of debt (that was bearing interest rates ranging from 5.5% to 6.4%) and fully paid back and terminated a $1.2 billion term loan on top of that (along with some of the proceeds of the 7-Eleven transaction). Sunoco thus seems eager to straighten out its balance sheet, reducing its debt levels and lowering its interest expenses at the same time. Since rising interest rates will lead to higher refinancing costs in the future this approach (lowering debt levels) seems opportune and is in the interest of long-term investors. Sunoco has, due to its scale, a strong position among independent fuel distributors, due to the relationships it has with partners such as Chevron and Exxon.

Final Thoughts & Recommendation

Sunoco is trading at an inexpensive valuation, offers a strong dividend yield, and has grown its profits at a solid pace over the last couple of years. The impact of the 7-Eleven transaction and its focus on fuel distribution makes it somewhat hard to forecast what Sunoco's earnings power will look like in the future, which is why the market is punishing the stock with a low valuation right now. The dividend yield alone would provide solid total returns though, which makes Sunoco worthy of a closer look for a diversified portfolio.

Total Return Breakdown by Year