Sunoco LP (SUN)

Updated August 9th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$26	**5 Year CAGR Estimate:**	22.3%	**Volatility Percentile:**	87.6%
Fair Value Price:	$33	**5 Year Growth Estimate:**	4.7%	**Momentum Percentile:**	22.1%
% Fair Value:	79%	**5 Year Valuation Multiple Estimate:**	4.9%	**Valuation Percentile:**	93.2%
Dividend Yield:	12.7%	**5 Year Price Target**	$42	**Total Return Percentile:**	98.3%

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 such as convenience products and food are sold to customers. Sunoco was founded in 2012, is headquartered in Dallas, TX, and currently trades with a market capitalization of $2.5 billion.

Sunoco reported its second quarter earnings results on August 8. The company earned $0.58 per share while revenues grew to $4.6 billion. The strong 59% revenue growth rate was primarily based on higher fuel prices, which led to higher revenues, but which also resulted in higher expenses. During Q2 Sunoco produced distributable cash flows of $106 million, EBITDA totaled $140 million, and EBITDA per share came in at $1.68.

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 does not have a long history, but over the last couple of years its results varied significantly. Sunoco's abnormally high EBITDA during 2015, based on unusually high spreads between oil and fuel prices, is an outlier. When we exclude 2015, Sunoco's profits grew 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 convenience stores will be less important going forward as Sunoco has sold more than 1000 of its convenience stores to 7-Eleven. This makes Sunoco more dependent on its fuel wholesale business, where it profits from significant scale and revenue consistency.

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 and distribution industry with several transactions it has made over the last couple of years, such as the 7-Eleven deal and 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 will also benefit from recent debt refinancing at lower rates, which lowers Sunoco's interest expenses.

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%	***12.7%***	***9.7%***

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

Sunoco is currently trading at a little bit above 6 times this year's expected EBITDA per share. Shares were usually valued at substantially higher valuations in the past, we see a fair valuation at ~8 times annual EBITDA.

Shares of Sunoco offer a very high dividend yield of 12.7%. During the second quarter cash coverage of the dividend was strong at 1.24, over the last twelve months cash coverage was solid as well, at 1.14. The dividend looks sustainable at the current level, but the dividend safety is not comparable to that of dividend blue chips.

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%***

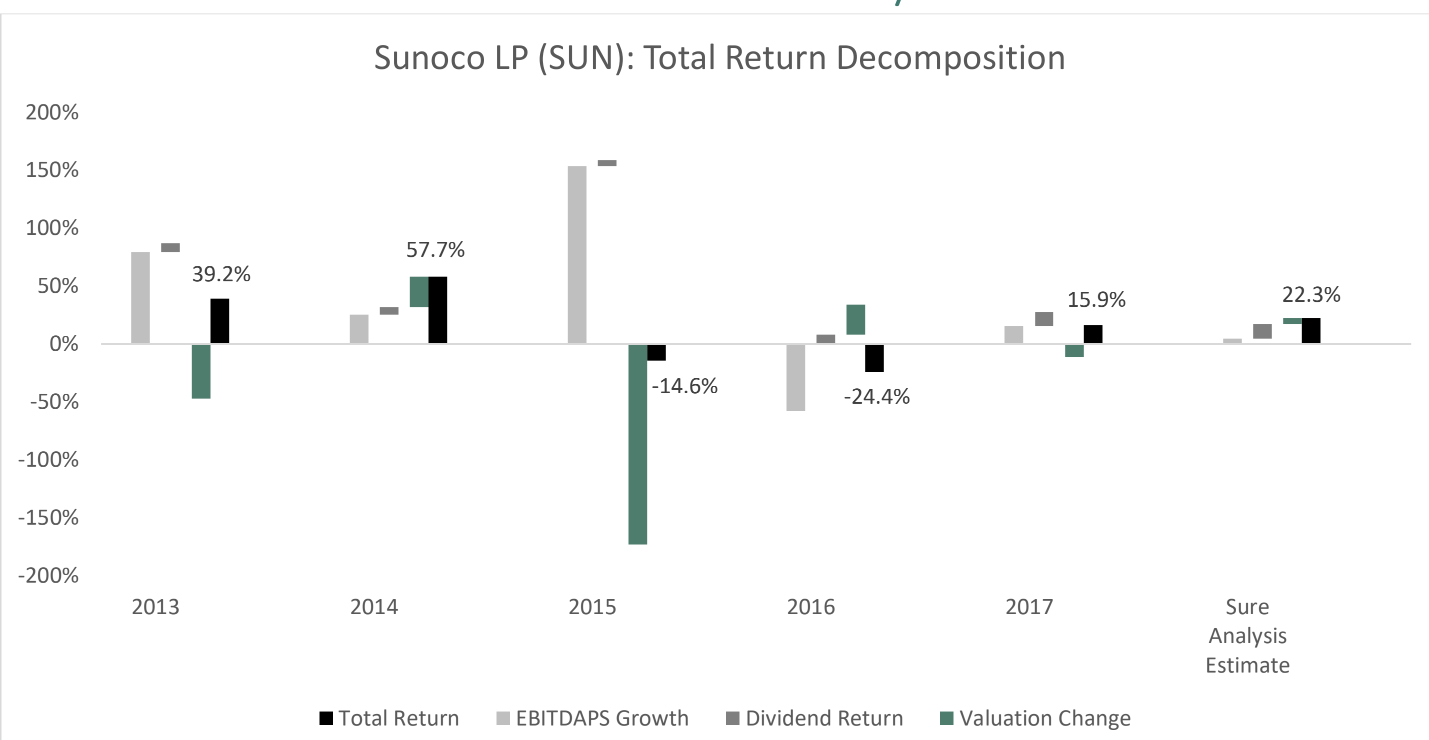
Sunoco's relatively young history means that there is not a large amount of historical data available, and the data through the last couple of years is relatively uneven. Restructuring activities such as acquisitions and asset sales have impacted the company's asset base as well as its debt levels significantly 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 used to repay $2.2 billion of debt that was bearing higher interest rates. Sunoco has reduced its net debt by $1.2 billion in 2018 and seems eager to straighten out its balance sheet further. Since rising interest rates will lead to higher refinancing costs in the future this approach 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 trades at a relatively inexpensive valuation and offers a very high dividend yield. Its results have been cyclical in the past, though, and Sunoco has not had to prove itself in a recession or economic crisis yet. Sunoco therefore does not look like a low-risk investment, but for income investors with an appetite for risk shares look like a buy at current prices.

Total Return Breakdown by Year



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