Suncor Energy Inc. (SU)

Updated November 19th, 2018 by Aristofanis Papadatos

Key Metrics

Current Price:	$43	**5 Year CAGR Estimate:**	8.2%	**Volatility Percentile:**	57.8%
Fair Value Price:	$39	**5 Year Growth Estimate:**	7.0%	**Momentum Percentile:**	39.5%
% Fair Value:	110%	**5 Year Valuation Multiple Estimate:**	-1.9%	**Growth Percentile:**	63.1%
Dividend Yield:	3.1%	**5 Year Price Target**	$55	**Valuation Percentile:**	31.5%
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Total Return Percentile:**	42.3%

Overview & Current Events

Suncor Energy is one of the largest integrated energy producers in Canada. The company is involved in all aspects of the energy value chain, including exploration & production, marketing, and refining. The company operates in three segments: Exploration & Production, Refining & Marketing, and Other. Suncor is headquartered in Calgary, Alberta, Canada and is cross-listed on both the Toronto Stock Exchange and the New York Stock Exchange, where it trades under the ticker 'SU' with a market capitalization of US$53 billion. Suncor reports financial results in Canadian dollars. Accordingly, the figures listed in this research report are in CAD and the company's TSE listed shares have been used for the purpose of valuation analysis.

In late October, Suncor reported (10/31/18) financial results for the third quarter of fiscal 2018. In the quarter, its operating earnings-per-share almost doubled, from $0.52 in last year's quarter to $0.96. The strong performance resulted form higher crude oil prices, increased refining margins, the ramp-up of production in the growth projects of Fort Hills and Hebron and record production of oil sands. Overall, the company exceeded the analysts' estimates and posted record funds from operations of $3.1 billion.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$2.26	$0.95	$1.71	$2.67	$1.79	$2.60	$1.84	-$1.38	$0.27	$2.68	***$2.80***	***$3.93***
DPS	$0.20	$0.30	$0.40	$0.43	$0.50	$0.73	$1.02	$1.14	$1.16	$1.28	***$1.35***	***$2.08***
Shares	931.52	1559.8	1565.5	1558.6	1523.1	1478.3	1444.1	1446.0	1667.9	1641.0	***1620.0***	***1500.0***

Although the company had a very difficult year in 2015, Suncor's recovery is well underway. Indeed, the company's 2017 earnings-per-share were its highest *in the last decade*. Moreover, thanks to strong performance in the third quarter, we have revised our earnings-per-share estimate for this year from $2.70 to $2.80. Beyond that, Suncor Energy expects to achieve additional growth thanks to the ramp-up of production at Fort Hills and Hebron and other growth projects. We believe that Suncor Energy is capable of generating 7% earnings-per-share growth over full economic cycles.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	21.0	35.0	19.7	13.6	17.8	13.0	21.8	---	---	15.6	***15.4***	***14.0***
Avg. Yld.	0.4%	0.9%	1.2%	1.2%	1.6%	2.2%	2.5%	3.1%	3.2%	3.1%	***3.1%***	***3.8%***

Like many large energy companies, Suncor's valuation history has been very volatile, as the company has battled tremendous fluctuations in its earnings-per-share. Using peak earnings (which Suncor is currently achieving), we believe that a fair price-to-earnings ratio for this energy company is 14. In our last research report, in August, we noted that the stock was overvalued. Since then, the stock has lost 20%. As a result, it is now trading at a more reasonable valuation. Nevertheless, its current price-to-earnings ratio of 15.4 is still higher than our assumed fair ratio of 14. If the stock approaches our fair valuation level over the next five years, it will incur a 1.9% annualized drag in its returns.

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.

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Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	29.1%	13.9%	24.9%	27.6%	27.6%	28.5%	28.0%	22.7%	19.1%	23.4%	***23.0%***	***25.0%***
Liab./A	55.4%	51.1%	48.7%	48.4%	48.7%	47.4%	47.8%	49.6%	49.7%	49.3%	***50.0%***	***50.0%***
Int. Cov.	3.5	4.2	9.7	70.3	38.9	18.0	13.6	-3.3	1.2	22.2	***21.0***	***25.0***
Std. Dev.	59.8%	39.9%	24.8%	34.1%	24.8%	20.0%	23.4%	23.4%	25.1%	19.7%	***22.0%***	***22.0%***
Payout	8.8%	31.6%	23.4%	16.1%	27.9%	28.1%	55.4%	N/A	43.0%	47.8%	***48.2%***	***52.9%***

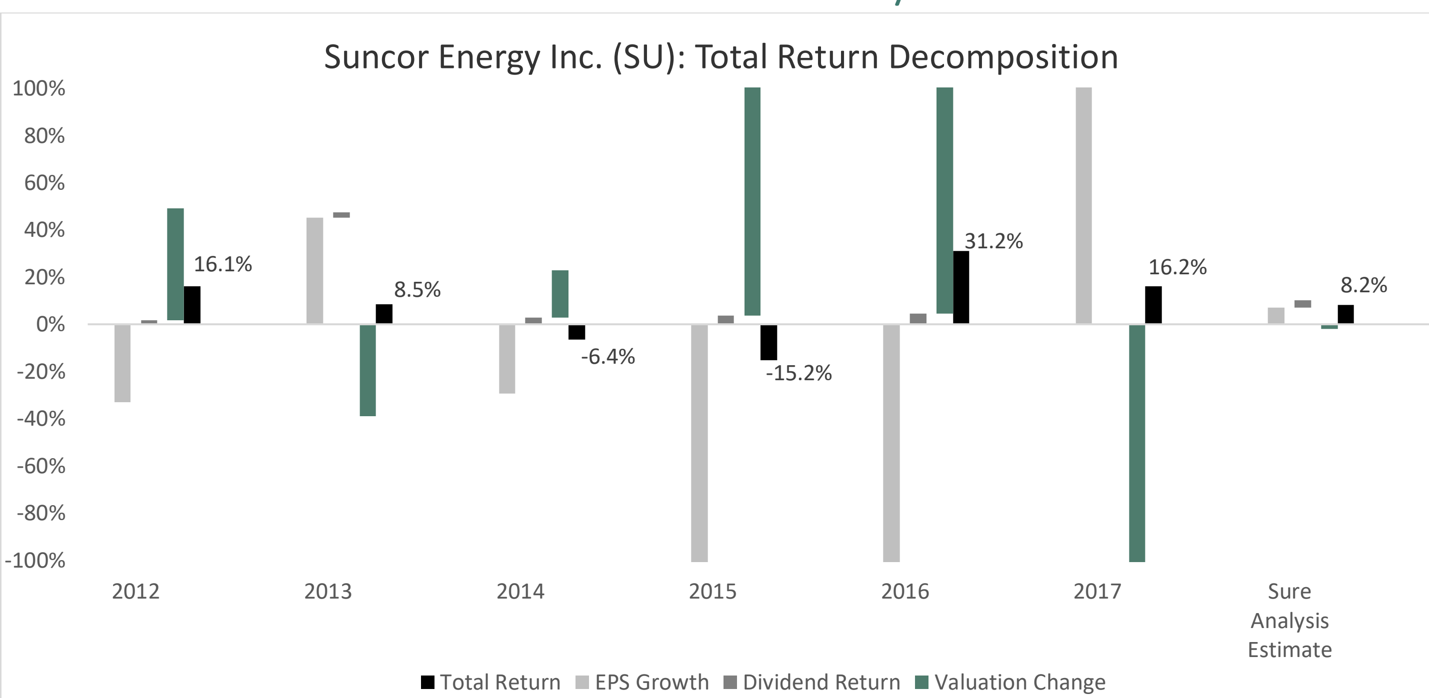
Suncor Energy generates a higher level of gross profits relative to its total assets than many of its peers in the Canadian energy space. The company has a markedly strong balance sheet, with less than 50% of its assets financed through liabilities and high interest coverage ratio. Given also its healthy payout ratio, the company has ample room to continue to raise its dividend, even if earnings growth stalls temporarily. The only negative observation is that the company has a stock price volatility that is well above-average among our investment universe.

Separately, Suncor is a committed dividend grower. The company is a member of the S&P/TSX Canadian Dividend Aristocrats Index, which is comprised of companies included in the S&P Canada BMI that have increased their dividends for at least five consecutive years. Suncor's dividend growth streak extends well beyond this arbitrary five-year cutoff, but what really stands out is the pace of these dividend increases. Suncor's 10-year dividend growth rate is *45%.*

Final Thoughts & Recommendation

Since our last research report, in which we advised investors to sell Suncor Energy, the stock has lost 20%. As a result, the stock has become more reasonably valued and can now offer an 8.2% average annual return over the next five years thanks to the ongoing recovery of its business. Nevertheless, due to its volatile performance record and its full valuation right now, Suncor Energy earns a hold recommendation from Sure Dividend at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	29499	25998	32604	38339	38107	39593	39862	29208	26807	32051
Gross Profit	9458	9683	17070	16662	14614	17408	16194	10118	10813	15329
Gross Margin	32.1%	37.2%	52.4%	43.5%	38.3%	44.0%	40.6%	34.6%	40.3%	47.8%
SG&A Exp.	4186	6430	7984	2723	3475	2861	3507	3428	4047	3734
Operating Profit	4069	1048	5065	7262	4622	7048	5292	68	142	4678
Op. Margin	13.8%	4.0%	15.5%	18.9%	12.1%	17.8%	13.3%	0.2%	0.5%	14.6%
Net Profit	2137	1146	3829	4304	2740	3911	2699	-1995	434	4458
Net Margin	7.2%	4.4%	11.7%	11.2%	7.2%	9.9%	6.8%	-6.8%	1.6%	13.9%
Free Cash Flow	-3525	-1445	-524	3138	1902	3323	1975	217	-902	2415
Income Tax	995	213	1947	2765	2244	2465	1891	-32	-359	1458

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	32528	69746	68607	74741	76401	78315	79671	77527	88702	89494
Cash & Equivalents	660	505	1077	3781	4385	5202	5495	4049	3016	2672
Acc. Receivable	1580	3703	5253	5383	5201	5254	4275	2751	3182	3281
Inventories	909	2947	3141	4169	3697	3944	3466	3090	3240	3468
Goodwill & Int.	21	3201	3422	3114	3104	3092	3083	3079	3075	3061
Total Liabilities	18005	35635	33415	36149	37186	37135	38068	38488	44072	44111
Accounts Payable	3326	6307	6443	7742	6446	7090	5704	5306	5588	6203
Long-Term Debt	7886	13882	12331	10777	11024	11458	13329	15303	17430	15579
Total Equity	14523	34111	35192	38592	39215	41180	41603	39039	44630	45383
D/E Ratio	0.54	0.41	0.35	0.28	0.28	0.28	0.32	0.39	0.39	0.34

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	7.5%	2.2%	5.5%	6.0%	3.6%	5.1%	3.4%	-2.5%	0.5%	5.0%
Return on Equity	16.2%	4.7%	11.1%	11.7%	7.0%	9.7%	6.5%	-4.9%	1.0%	9.9%
ROIC	11.2%	3.3%	8.0%	8.9%	5.5%	7.6%	5.0%	-3.7%	0.7%	7.2%
Shares Out.	931.52	1559.8	1565.5	1558.6	1523.1	1478.3	1444.1	1446.0	1667.9	1641.0
Revenue/Share	31.22	21.47	20.69	24.23	24.60	26.36	27.21	20.19	16.63	19.25
FCF/Share	-3.73	-1.19	-0.33	1.98	1.23	2.21	1.35	0.15	-0.56	1.45

Note: All figures in millions of Canadian Dollars unless per share or indicated otherwise.