



Sunoco LP (SUN)

Updated November 17th, 2018 by Jonathan Weber

Key Metrics

Current Price:	\$27	5 Year CAGR Estimate:	20.6%	Volatility Percentile:	88.0%
Fair Value Price:	\$32	5 Year Growth Estimate:	4.7%	Momentum Percentile:	39.9%
% Fair Value:	84%	5 Year Valuation Multiple Estimate:	3.6%	Growth Percentile:	30.2%
Dividend Yield:	12.3%	5 Year Price Target	\$41	Valuation Percentile:	79.2%
Dividend Risk Score:	F	Retirement Suitability Score:	C	Total Return Percentile:	96.0%

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 \$2.2 billion.

Sunoco reported its third quarter earnings results on November 8. The company recorded revenues of \$4.8 billion, which was an outsized increase of 54.8% year over year. The most important growth driver was the higher price of oil, which has resulted in higher fuel prices. As Sunoco's input costs rise as well if the price of oil & fuel rises, the massive revenue increase did not result in an earnings growth rate of the same magnitude. GAAP earnings-per-share totaled \$1.15, but for income partnership plays such as Sunoco the cash flow numbers are more important. Sunoco was able to grow its distributable cash flow by 13% year over year, DCF totaled \$149 million during the quarter. The dividend of \$0.825 per share per quarter was easily covered with a cash coverage ratio of 1.73 during the third quarter.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EBITDA/S	-	-	-	-	\$1.40	\$2.51	\$3.14	\$7.95	\$3.34	\$3.85	\$4.05	\$5.10
DPS	-	-	-	-	\$0.47	\$1.80	\$2.05	\$2.68	\$3.26	\$3.30	\$3.30	\$4.10
Shares	-	-	-	-	22	22	24	50	52	116	100	120

Sunoco does not have a long history, as the company was created just a few years ago. During that time frame its results varied significantly. Sunoco's abnormally high EBITDA during 2015, which was caused by 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 a high amount of new shares. Sunoco issues new shares to acquire companies or single assets. The partnership only does this when the transaction is expected to be accretive to its EBITDA-per-share.

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 largest independent fuel distributors, and Sunoco is also among the top distributors of Chevron, Exxon, and Valero branded motor fuel in the rest of the United States. 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, which can be explained by customers' preference for larger, less fuel-efficient models such as SUVs and trucks, should be beneficial for Sunoco going forward. The trend is even stronger in Sunoco's main market of Texas, which is highly beneficial for the company.

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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Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
P/EBITDA	-	-	-	-	17.7	11.2	13.4	5.5	9.9	7.3	6.7	8.0
Avg. Yld.	-	-	-	-	1.9%	6.4%	5.1%	6.1%	9.8%	11.8%	12.3%	9.5%

Sunoco should best be valued relative to the EBITDA-per-share that the company creates. Based on this ratio, Sunoco should be valued at a high-single digits multiple, whereas shares trade for less than 7 times this year's expected EBITDA. We thus see some share price appreciation potential. The very high dividend yield of 12.3% was well covered during Q3 as well as over the last four quarters, with cash coverage ratios of 1.73 and 1.24, respectively.

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%	81.5%	80.4%
Std. Dev.	-	-	-	-	-	21.3%	32.7%	24.7%	41.1%	30.8%	29.0%	27.0%

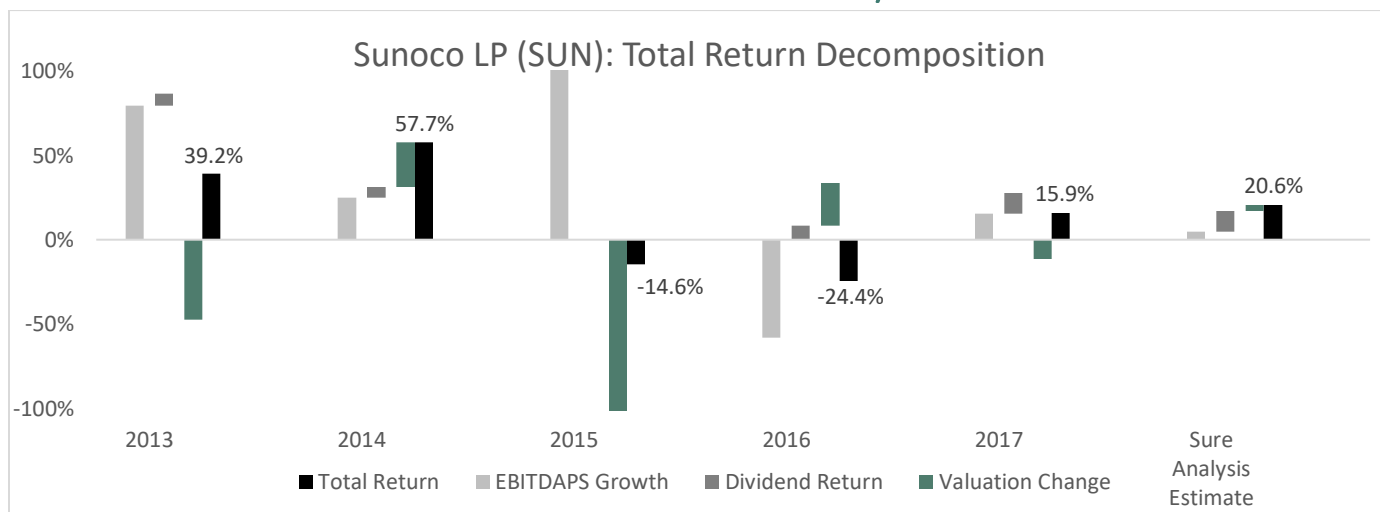
Sunoco's relatively young history means that there is not a large amount of historical data available. The data through the last couple of years is relatively uneven. Restructuring activities such as acquisitions and asset sales have impacted the company's asset base as well as its debt levels significantly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

Sunoco has reduced its net debt by \$1.5 billion during the first three quarters of 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. The company also has strong relationships with partners such as Chevron and Exxon.

Final Thoughts & Recommendation

Sunoco is a high-yield income play that has been very active in the M&A markets during the last couple of years. Recent transactions have allowed for significant debt reduction and were accretive to EBITDA-per-share at the same time. The company offers compelling expected returns moving forward, which is why we rate shares a buy at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	N/A	N/A	N/A	N/A	N/A	6825	N/A	12430	9986	11723
Gross Profit	N/A	N/A	N/A	N/A	N/A	381	N/A	980	1156	1108
Gross Margin	N/A	N/A	N/A	N/A	N/A	5.6%	N/A	7.9%	11.6%	9.5%
SG&A Exp.	N/A	N/A	N/A	N/A	N/A	75	N/A	205	236	221
D&A Exp.	N/A	N/A	N/A	N/A	N/A	9	N/A	N/A	N/A	N/A
Operating Profit	N/A	N/A	N/A	N/A	N/A	246	N/A	253	370	343
Operating Margin	N/A	N/A	N/A	N/A	N/A	3.6%	N/A	2.0%	3.7%	2.9%
Net Profit	N/A	N/A	N/A	N/A	N/A	-61	N/A	190	-406	149
Net Margin	N/A	N/A	N/A	N/A	N/A	-0.9%	N/A	1.5%	-4.1%	1.3%
Free Cash Flow	N/A	N/A	N/A	N/A	N/A	-66	N/A	200	390	297
Income Tax	N/A	N/A	N/A	N/A	N/A	70	N/A	29	-72	-306

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	N/A	N/A	N/A	N/A	N/A	390	6149	8842	8701	8344
Cash & Equivalents	N/A	N/A	N/A	N/A	N/A	8	125	73	103	28
Accounts Receivable	N/A	N/A	N/A	N/A	N/A	68	193	161	361	285
Inventories	N/A	N/A	N/A	N/A	N/A	11	440	467	423	426
Goodwill & Int. Ass.	N/A	N/A	N/A	N/A	N/A	46	2748	4371	2325	2198
Total Liabilities	N/A	N/A	N/A	N/A	N/A	310	2306	3579	6505	6097
Accounts Payable	N/A	N/A	N/A	N/A	N/A	110	383	434	616	559
Long-Term Debt	N/A	N/A	N/A	N/A	N/A	186	N/A	1958	4514	4290

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	N/A	N/A	N/A	N/A	N/A	-16.4%	N/A	4.1%	-4.6%	1.7%
Return on Equity	N/A	N/A	N/A	N/A	N/A	-77.4%	N/A	4.2%	-15.4%	N/A
Shares Out.	N/A	N/A	N/A	N/A	22	22	24	50	52	116
Revenue/Share	N/A	N/A	N/A	N/A	N/A	216.55	N/A	247.19	106.68	117.55
FCF/Share	N/A	N/A	N/A	N/A	N/A	-2.08	N/A	3.98	4.17	2.98

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

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