



Sunoco LP (SUN)

Updated February 21st, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$30	5 Year CAGR Estimate:	20.4%	Volatility Percentile:	82.2%
Fair Value Price:	\$38	5 Year Growth Estimate:	4.2%	Momentum Percentile:	62.5%
% Fair Value:	79%	5 Year Valuation Multiple Estimate:	5.1%	Growth Percentile:	30.8%
Dividend Yield:	11.1%	5 Year Price Target	\$47	Valuation Percentile:	89.9%
Dividend Risk Score:	F	Retirement Suitability Score:	B	Total Return Percentile:	97.3%

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 fourth quarter and full year earnings results on February 20. The company reported that its revenues totaled \$3.88 billion during the fourth quarter, which was 31.1% more than the revenues that Sunoco has generated during the previous year's fourth quarter. Higher gasoline prices were responsible for the majority of the company's revenue growth. Since higher gasoline prices also lead to higher costs for Sunoco, this revenue growth does not necessarily translate into higher profits for the company. Sunoco reported that its EBITDA rose to \$180 million during the fourth quarter, which was 13.9% more than the EBITDA that Sunoco generated during the previous year's quarter. This was possible due to rising margins for the company, as well as higher average volumes. Sunoco was able to grow its distributable cash flows by 7.5% compared to the prior year's quarter, to \$114 million.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EBITDA/S	-	-	-	\$1.40	\$2.51	\$3.14	\$7.95	\$3.34	\$7.32	\$7.51	\$7.60	\$9.34
DPS	-	-	-	\$0.47	\$1.80	\$2.05	\$2.68	\$3.26	\$3.30	\$3.30	\$3.30	\$3.30
Shares	-	-	-	22	22	24	50	52	100	85	87	95

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 prices and fuel/gasoline prices, is an outlier. During 2017 Sunoco was able to grow its EBITDA-per-share massively, 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 three 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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
P/EBITDA	-	-	-	17.7	11.2	13.4	5.0	8.1	4.0	3.5	3.9	5.0
Avg. Yld.	-	-	-	1.9%	6.4%	5.1%	6.1%	9.8%	11.8%	12.7%	11.1%	7.1%

Sunoco LP trades at a very low price to EBITDA multiple right now, as it did in 2017 and 2018. Sunoco's share price is still well below the peaks of \$60 that were hit during 2014, whereas profitability, measured by EBITDA-per-share, is quite high. The combination of these factors explains why Sunoco's current valuation is so low. We see considerable upside potential, although we believe that it is unlikely that Sunoco's valuation will expand towards the double digits shares have traded at a couple of years ago, as Sunoco was a different, more retail-focused company back then.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	-	-	-	-	71.7%	65.3%	33.7%	97.6%	45.1%	43.9%	43.4%	35.3%

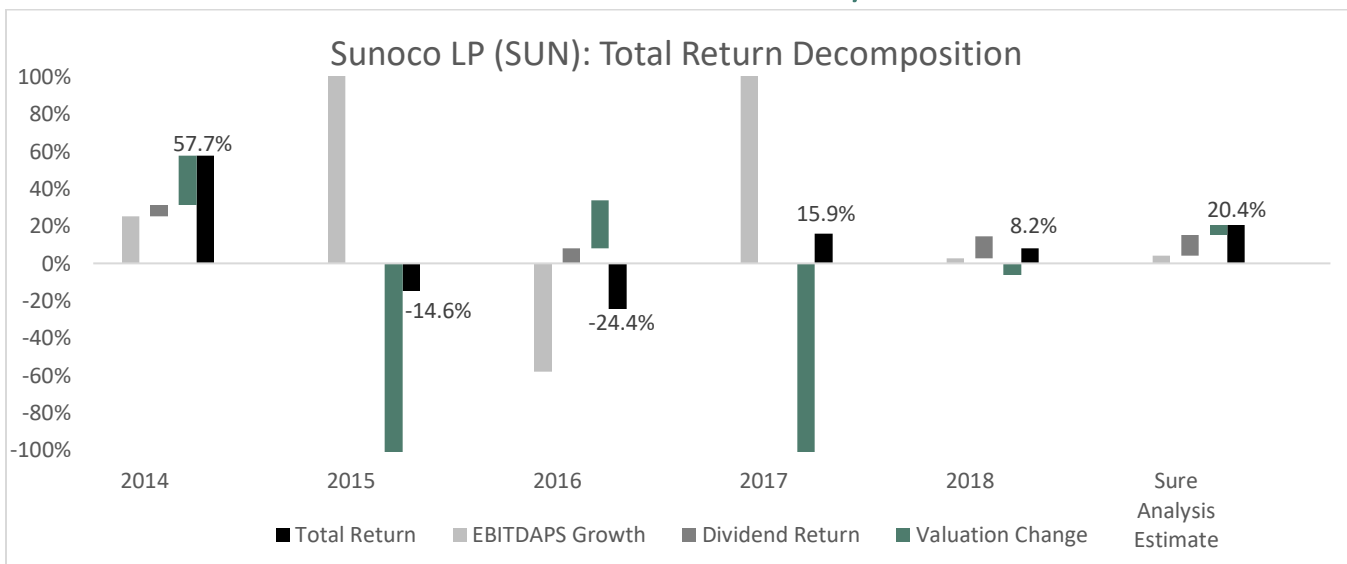
Sunoco's dividend payout ratio has moved in a wide range throughout its existence, as EBITDA has seen steep ups and downs. The company has never cut its dividend, but there has not been any dividend raise since 2017, either. The current yield of more than 11% provides ample income even without any dividend growth, though. Sunoco has covered its dividend payout by a factor of 1.33 via distributable cash flows, thus the dividend looks somewhat safe for now.

Sunoco is one of the largest fuel wholesalers in Texas, which provides competitive advantages in terms of size and scale. It is also a key distributor for Exxon and Chevron branded fuels, and the company has good relations to these energy giants. Via tuck-in acquisitions Sunoco can increase its scale advantage further over the coming years.

Final Thoughts & Recommendation

Sunoco is a high-yielding limited partnership that has considerably changed its business model over the last couple of years. After the sale of the majority of its retail assets Sunoco is now wholesale-focused, and has considerable scale advantages in its key market Texas. The company trades below our fair value estimate and could produce high total returns, but investors should keep in mind that results can be quite cyclical. We rate Sunoco a buy 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	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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