# Sunoco LP (SUN)

*Updated June 3rd, 2019 by Jonathan Weber*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $30 | **5 Year CAGR Estimate:** | 20.4% | **Volatility Percentile:** | 76.5% |
| **Fair Value Price:** | $38 | **5 Year Growth Estimate:** | 4.2% | **Momentum Percentile:** | 86.7% |
| **% Fair Value:** | 79% | **5 Year Valuation Multiple Estimate:** | 5.1% | **Growth Percentile:** | 32.9% |
| **Dividend Yield:** | 11.1% | **5 Year Price Target** | $47 | **Valuation Percentile:** | 83.0% |
| **Dividend Risk Score:** | D | **Retirement Suitability Score:** | B | **Total Return Percentile:** | 95.0% |

## 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 $2.5 billion.

Sunoco reported its first quarter earnings results on May 9. The company reported that its revenues totaled $3.69 billion during the first quarter, which was 0.3% less than the revenues that Sunoco generated during the previous year's first quarter. Unlike during the last couple of quarters, gasoline prices were not up materially during the first quarter on a year-over-year basis, which is why revenues did not benefit from gasoline price tailwinds during the first quarter.

Sunoco reported that its adjusted EBITDA rose to $153 million during the first quarter, which was 40.4% more than the adjusted EBITDA that Sunoco generated during the previous year's quarter. This was possible due to an increase in Sunoco's EBITDA margin primarily. Sunoco was able to grow its distributable cash flows by 16.5% compared to the prior year's quarter, to $99 million. Sunoco's dividend coverage ratio was 1.15 during the first quarter.

## 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. Following the sale of a large amount of its convenience stores, Sunoco is now 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 efficient models such as SUVs and trucks, should be beneficial for Sunoco going forward. This trend is even stronger in Sunoco's main market of Texas, which is highly beneficial for the partnership.

*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 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 peak of $60 that was hit during 2014, whereas profitability, measured by EBITDA-per-share, is close to peak levels. 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 very unlikely that Sunoco's valuation will expand towards 10 or even more, a valuation it has traded at a couple of years ago.

## 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%*** |

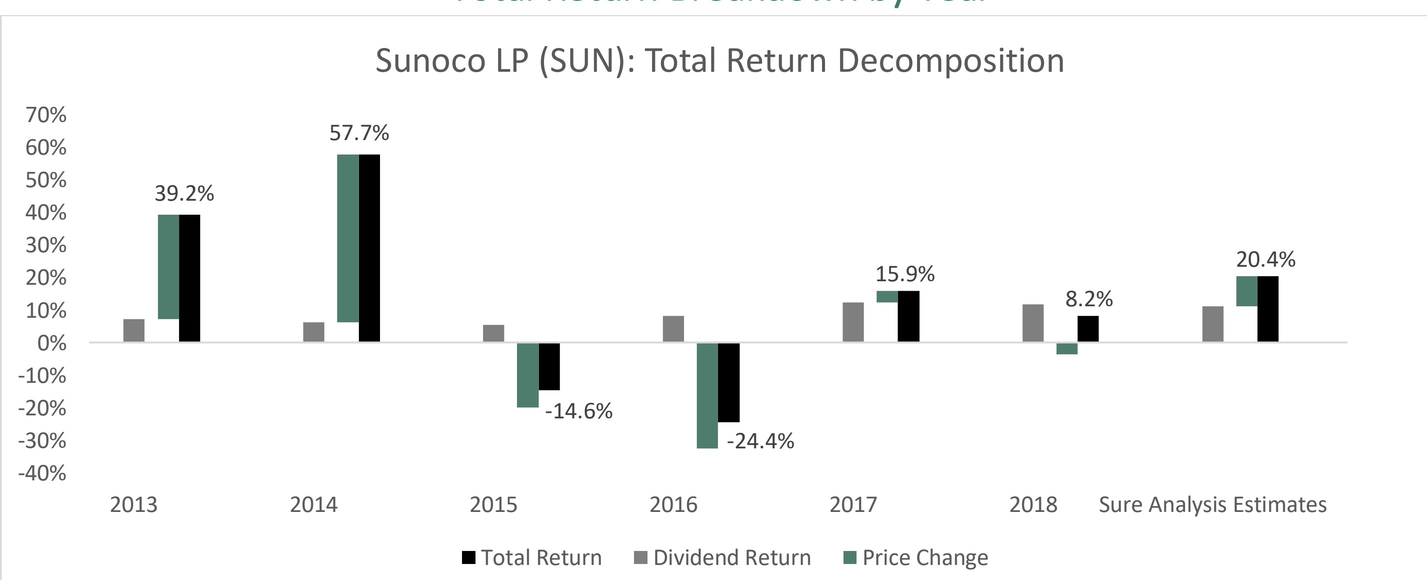
Sunoco's dividend payout ratio has moved in a wide range throughout its existence, as EBITDA has seen steep ups and downs. The company has never cut its dividend, but there has not been any dividend raise since 2017, either. The current yield of more than 11% provides ample income. Sunoco has covered its dividend payout by a factor of 1.36 via distributable cash flows during the last 4 quarters, 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

Following the sale of much of its convenience business, Sunoco is centered around fuel wholesale now, a business where Sunoco has huge scale advantages, especially in its home market Texas. The company trades below our fair value estimate and could produce high total returns, and investors get a very high dividend yield, but investors should keep in mind that results can be cyclical. We rate Sunoco a buy at current prices, but only for those that do not mind the risks.

## Total Return Breakdown by Year

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## Income Statement Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | | | | | | | | | | |
| Gross Profit | | | | | | | | | | |
| Gross Margin | | | | | | | | | | |
| SG&A Exp. | | | | | | | | | | |
| D&A Exp. | | | | | | | | | | |
| Operating Profit | | | | | | | | | | |
| Operating Margin | | | | | | | | | | |
| Net Profit | | | | | | | | | | |
| Net Margin | | | | | | | | | | |
| Free Cash Flow | | | | | | | | | | |
| Income Tax | | | | | | | | | | |

## Balance Sheet Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets | | | | | | | | | | |
| Cash & Equivalents | | | | | | | | | | |
| Accounts Receivable | | | | | | | | | | |
| Inventories | | | | | | | | | | |
| Goodwill & Int. Ass. | | | | | | | | | | |
| Total Liabilities | | | | | | | | | | |
| Accounts Payable | | | | | | | | | | |
| Long-Term Debt | | | | | | | | | | |

## Profitability & Per Share Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | | | | | | | | | | |
| Return on Equity | | | | | | | | | | |
| Shares Out. | | | | | | | | | | |
| Revenue/Share | | | | | | | | | | |
| FCF/Share | | | | | | | | | | |

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


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