



Sunoco LP (SUN)

Updated November 9th, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$32	5 Year CAGR Estimate:	9.9%	Volatility Percentile:	72.0%
Fair Value Price:	\$32	5 Year Growth Estimate:	1.5%	Momentum Percentile:	77.9%
% Fair Value:	99%	5 Year Valuation Multiple Estimate:	0.2%	Growth Percentile:	7.4%
Dividend Yield:	10.3%	5 Year Price Target	\$35	Valuation Percentile:	67.3%
Dividend Risk Score:	C	Retirement Suitability Score:	A	Total Return Percentile:	76.2%

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 \$2.7 billion.

Sunoco reported its third quarter earnings results on November 6. The company reported that its revenues totaled \$4.3 billion during the quarter, which was 9.0% less than the revenues that Sunoco generated during the previous year's quarter. The company missed the analyst consensus estimate slightly. Fuel prices were down during the quarter, which explains why revenues declined, although lower fuel prices were partially offset by higher volumes. When fuel prices sink, this also lowers Sunoco's expenses, which is why revenue declines are not necessarily meaningful for Sunoco.

Sunoco reported that its adjusted EBITDA rose to \$192 million during the third quarter, which was 8% less than the adjusted EBITDA that Sunoco generated during the previous year's quarter. Sunoco's margin on fuel sales declined slightly. Sunoco's distributable cash flows totaled \$133 million during the third quarter, which was lower compared to the previous year's quarter, but which still allowed for a strong coverage ratio of 1.55.

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	\$7.20	\$7.76
DPS	---	---	---	\$0.47	\$1.80	\$2.05	\$2.68	\$3.26	\$3.30	\$3.30	\$3.30	\$3.30
Shares¹	---	---	---	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 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. In the fuel wholesale industry, scale is important, as increased scale allows for higher margins and a better negotiating position with both suppliers and customers. Total gasoline sales declined relatively steadily since the beginning of the current millennium, but bottomed in 2015, and have risen over the last couple of years. This macro shift towards higher gasoline consumption can be explained by customers' preference for larger, less efficient models such as SUVs and trucks. Higher gasoline demand is a macro tailwind for Sunoco's business, as this drives the company's sales volumes.

¹ In Millions

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	4.4	4.5
Avg. Yld.	---	---	---	1.9%	6.4%	5.1%	6.1%	9.8%	11.8%	12.7%	10.3%	9.5%

Sunoco trades at a low price-to-EBITDA multiple right now, almost as low 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 remains very low. We do not believe that the EBITDA multiples in the teens range from 2012-2014 are coming back, as Sunoco was a different, more convenience store-oriented company back then. We thus see only marginal upside from the current level.

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%	45.8%	42.5%

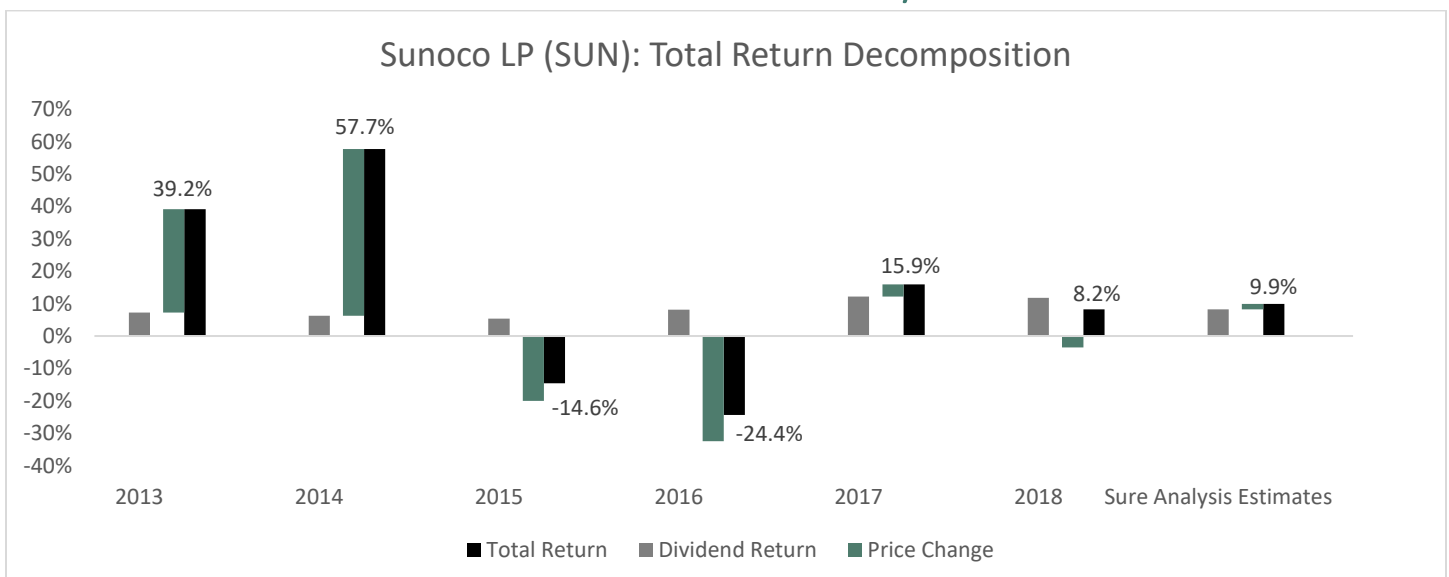
Sunoco's dividend payout ratio has moved in a wide range throughout its existence, as EBITDA has seen steep ups and downs. The company has never cut its dividend, but there have not been any dividend increases since 2017, either. The current yield of 10.5% provides more than ample income. Sunoco has covered its dividend payout by a factor of 1.35 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 relationships with these energy giants. Via tuck-in acquisitions, Sunoco can increase its scale advantage further over the coming years.

Final Thoughts & Recommendation

Sunoco is centered on fuel wholesale following the sale of its convenience store business. In the fuel wholesale business Sunoco has scale advantages, especially in its home market of Texas. The company trades slightly below our fair value estimate and could produce compelling total returns, and investors get a high dividend yield. Investors should keep in mind that results can be cyclical. We rate Sunoco a buy at current prices for those that do not mind the ups and downs.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue		2684	3875	4321	4493		12430	9986	11723	16994
Gross Profit		36	43	52	71		980	1156	1108	1122
Gross Margin		1.3%	1.1%	1.2%	1.6%		7.9%	11.6%	9.5%	6.6%
SG&A Exp.		12	15	16	18		205	236	221	213
Operating Profit		15	17	24	41		253	370	343	364
Operating Margin		0.6%	0.4%	0.5%	0.9%		2.0%	3.7%	2.9%	2.1%
Net Profit		9	11	18	37		190	-406	149	-207
Net Margin		0.3%	0.3%	0.4%	0.8%		1.5%	-4.1%	1.3%	-1.2%
Free Cash Flow		3	-5	-28	-66		200	390	297	-142
Income Tax		5	-6	-5	0		29	-72	-306	34

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets			231	356	390	6149	8842	8701	8344	4879
Cash & Equivalents			0	7	8	125	73	103	28	56
Accounts Receivable			31	33	68	193	161	361	285	299
Inventories			7	3	11	440	467	423	426	374
Goodwill & Int. Ass.			44	36	46	2748	4371	2325	2198	2267
Total Liabilities			116	277	310	2306	3579	6505	6097	4095
Accounts Payable			98	89	110	383	434	616	559	412
Long-Term Debt			1	185	186	1106	1958	4514	4290	2985

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets			6.0%	9.9%		2.5%	-4.6%	1.7%	-3.1%	
Return on Equity			18.1%	46.9%		4.2%	-10.9%	6.7%	-13.7%	
Shares Out.				22	22	24	50	52	100	85
Revenue/Share	122.67	177.11	197.48	204.90		247.19	106.68	117.55	200.35	122.67
FCF/Share	0.14	-0.22	-1.26	-2.99		3.98	4.17	2.98	-1.67	0.14

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

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