Suncor Energy Inc. (SU)

Updated February 6th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	$31	**5 Year CAGR Estimate:**	9.0%	**Market Cap:**	$47.6 B
Fair Value Price:	$34	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	3/3/2020
% Fair Value:	92%	**5 Year Valuation Multiple Estimate:**	1.6%	**Dividend Payment Date:**	3/25/2020
Dividend Yield:	4.6%	**5 Year Price Target**	$41	**Years Of Dividend Growth:**	20
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	12.6%

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$48 billion. Suncor reports financial results in Canadian dollars. However, the figures listed in this research report are in USD.

In early February, Suncor reported (2/5/20) financial results for the fourth quarter of fiscal 2019. Total upstream production fell -6.4% over the prior year's quarter, from 831,000 to 778,200 barrels per day, due to planned maintenance and Alberta's enforced production cuts. However, operating earnings-per-share climbed from $0.36 to $0.51 thanks to improved Western Canadian crude oil differentials, which boosted the realizations of oil sands significantly. Thanks to positive business momentum, management raised the dividend by 12.6%.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$1.66	$2.70	$1.79	$2.52	$1.60	-$1.04	$0.20	$2.06	$1.56	$2.18	***$2.40***	***$2.92***
DPS	$0.39	$0.43	$0.50	$0.71	$0.89	$0.86	$0.84	$0.99	$1.11	$1.27	***$1.43***	***$1.74***
Shares[1]	1,566	1,559	1,523	1,478	1,444	1,446	1,668	1,641	1,585	1,536	***1,500***	***1,400***

Although the company had very difficult years in 2015 and 2016, Suncor's recovery is well underway. Indeed, the company's 2017 earnings-per-share were its highest *in the last decade (in CAD)*. Moreover, Suncor expects to achieve additional growth thanks to the ramp-up of production at Fort Hills and Hebron and other growth projects, which enhance value within its integrated asset portfolio. The company also makes sustained efforts to reduce its operating expenses. Due to our expectations for nearly record earnings-per-share this year, we expect an earnings-per-share growth rate of 4% over the next five years, as this year will form a high comparison base. Despite the strong recent results, the losses posted in the last quarter of 2018 are a harsh reminder of the company's sensitivity to oil prices, particularly the discount of Canadian crude to WTI. Investors should also note the markedly volatile performance record of Suncor.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	19.7	13.6	17.8	13.0	21.8	---	---	15.6	23.7	14.4	***12.9***	***14.0***
Avg. Yld.	1.2%	1.2%	1.6%	2.2%	2.5%	3.1%	3.2%	3.1%	3.0%	4.0%	***4.6%***	***4.3%***

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 approaching), we believe that a fair price-to-earnings ratio for this energy company is 14. Suncor is currently trading at a price-to-earnings

[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.

ratio of 12.9, which is lower than our assumed fair ratio of 14. If the stock approaches our fair valuation level over the next five years, it will enjoy a 1.6% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	23.4%	16.1%	27.9%	28.1%	55.4%	---	43.0%	47.8%	71.3%	58.0%	***59.6%***	***59.6%***

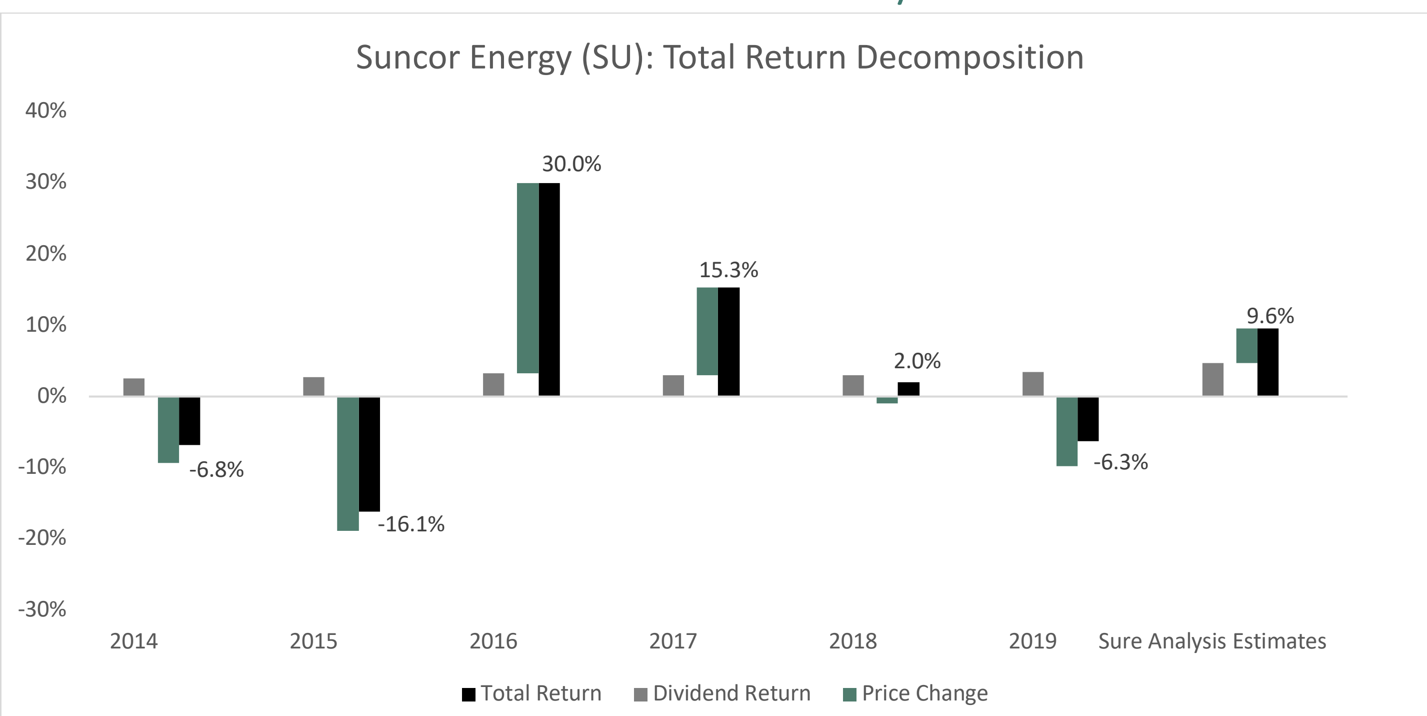
The integrated structure of Suncor Energy somewhat mitigates its exposure to the fluctuations of commodity prices. However, the company is still very sensitive to underlying crude oil prices. In addition, as a commodity producer, Suncor lacks a meaningful competitive advantage. On the bright side, the company has a healthy balance sheet, with only 51% of its assets financed through liabilities and a high interest coverage ratio.

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 has grown its dividend more than 3-fold in the last decade. However, while its 4.0%+ dividend yield is much higher than the yield of the S&P, the high cyclicality of the stock and its volatile performance render its dividend unsuitable for income-oriented investors with a low level of risk tolerance.

Final Thoughts & Recommendation

Thanks to positive trends in its business, Suncor Energy could offer a 9.6% average annual return over the next five years. However, due to its volatile performance record and its high sensitivity to oil prices, it receives a hold rating from Sure Dividend. Of course, this volatile stock may offer large gains if the oil price enjoys a strong rebound, but we prefer other stocks in the energy sector, with a less volatile record and lower exposure to the volatile price of Canadian crude.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	32604	38339	38107	39593	39862	29208	26807	32051	38542	
Gross Profit	17070	16662	14614	17408	16194	10118	10813	15329	18671	
Gross Margin	52.4%	43.5%	38.3%	44.0%	40.6%	34.6%	40.3%	47.8%	48.4%	
SG&A Exp.	7984	2723	3475	2861	3507	3428	4047	3734	10453	
Operating Profit	5065	7262	4622	7048	5292	68	142	4678	6675	
Op. Margin	15.5%	18.9%	12.1%	17.8%	13.3%	0.2%	0.5%	14.6%	17.3%	
Net Profit	3829	4304	2740	3911	2699	-1995	434	4458	3293	
Net Margin	11.7%	11.2%	7.2%	9.9%	6.8%	-6.8%	1.6%	13.9%	8.5%	
Free Cash Flow	-524	3138	1902	3323	1975	217	-902	2415	5174	
Income Tax	1947	2765	2244	2465	1891	-32	-359	1458	1690	

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	68607	74741	76401	78315	79671	77527	88702	89494	89579	
Cash & Equivalents	1077	3781	4385	5202	5495	4049	3016	2672	2221	
Acc. Receivable	5253	5383	5201	5254	4275	2751	3182	3281	3206	
Inventories	3141	4169	3697	3944	3466	3090	3240	3468	3159	
Goodwill & Int.	3422	3114	3104	3092	3083	3079	3075	3061	3061	
Total Liabilities	33415	36149	37186	37135	38068	38488	44072	44111	45574	
Accounts Payable	6443	7742	6446	7090	5704	5306	5588	6203	5647	
Long-Term Debt	12331	10777	11024	11458	13329	15303	17430	15579	17350	
Total Equity	35192	38592	39215	41180	41603	39039	44630	45383	44005	
D/E Ratio	0.35	0.28	0.28	0.28	0.32	0.39	0.39	0.34	0.39	

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	5.5%	6.0%	3.6%	5.1%	3.4%	-2.5%	0.5%	5.0%	3.7%	
Return on Equity	11.1%	11.7%	7.0%	9.7%	6.5%	-4.9%	1.0%	9.9%	7.4%	
ROIC	8.0%	8.9%	5.5%	7.6%	5.0%	-3.7%	0.7%	7.2%	5.4%	
Shares Out.	1565.5	1558.6	1523.1	1478.3	1444.1	1446.0	1667.9	1641.0	1599.0	
Revenue/Share	20.69	24.23	24.60	26.36	27.21	20.19	16.63	19.25	23.66	
FCF/Share	-0.33	1.98	1.23	2.21	1.35	0.15	-0.56	1.45	3.18	

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