



Sunoco LP (SUN)

Updated February 24th, 2020 by Jonathan Weber

Key Metrics

Current Price:	\$31	5 Year CAGR Estimate:	12.3%	Market Cap:	\$2.6B
Fair Value Price:	\$36	5 Year Growth Estimate:	1.5%	Ex-Dividend Date:	05/06/20 ¹
% Fair Value:	86 %	5 Year Valuation Multiple Estimate:	3.0%	Dividend Payment Date:	05/15/20 ²
Dividend Yield:	10.6%	5 Year Price Target	\$39	Years Of Dividend Growth:	0
Dividend Risk Score:	C	Retirement Suitability Score:	A	Last Dividend Increase:	-

Overview & Current Events

Sunoco is a master limited partnership that distributes a range of 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 and beverages, are sold to customers. Sunoco was founded in 2012 and is headquartered in Dallas, Texas.

Sunoco reported its fourth quarter earnings results on February 19. The company reported that its revenues totaled \$4.1 billion during the quarter, which was 5.7% more than the revenues that Sunoco generated during the previous year's quarter. The company beat the analyst consensus estimate slightly. Fuel prices did not change much compared to the previous year's quarter, but sales volumes improved by 3% year over year. Fuel price changes are not overly meaningful for Sunoco, as this impacts revenues and expenses. Volume gains are the more important factor for Sunoco's growth.

Sunoco reported that its adjusted EBITDA declined to \$168 million during the fourth quarter, which was 7% 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 \$120 million during the fourth quarter, which was higher compared to the previous year's quarter, and which allowed for a strong dividend coverage ratio of 1.73.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EBITDA/S	---	---	\$1.40	\$2.51	\$3.14	\$7.95	\$3.34	\$7.32	\$7.51	\$7.92	\$8.00	\$8.62
DPS	---	---	\$0.47	\$1.80	\$2.05	\$2.68	\$3.26	\$3.30	\$3.30	\$3.30	\$3.30	\$3.30
Shares³	---	---	22	22	24	50	52	100	85	84	85	90

Sunoco does not have a long history, as the company was created not too long ago. During that time frame its results varied significantly. Sunoco's abnormally high EBITDA during 2015 was an outlier caused by above-average fuel price spreads, for example. During 2017 Sunoco was able to grow its EBITDA-per-share massively, despite the issuance of a high amount of new shares that was used to finance acquisitions. Sunoco issues new shares regularly, but the partnership only does this when the transaction/acquisition 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

¹ Estimated date

² Estimated date

³ In Millions

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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.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
P/EBITDA	---	---	17.7	11.2	13.4	5.0	8.1	4.0	3.5	3.9	3.9	4.5
Avg. Yld.	---	---	1.9%	6.4%	5.1%	6.1%	9.8%	11.8%	12.7%	10.6%	10.6%	8.5%

Sunoco trades at a low price-to-EBITDA multiple right now, almost as low as it did in 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, hit a new peak in 2019. 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 still see some upside from the current level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	71.7%	65.3%	33.7%	97.6%	45.1%	43.9%	41.7%	41.3%	38.3%

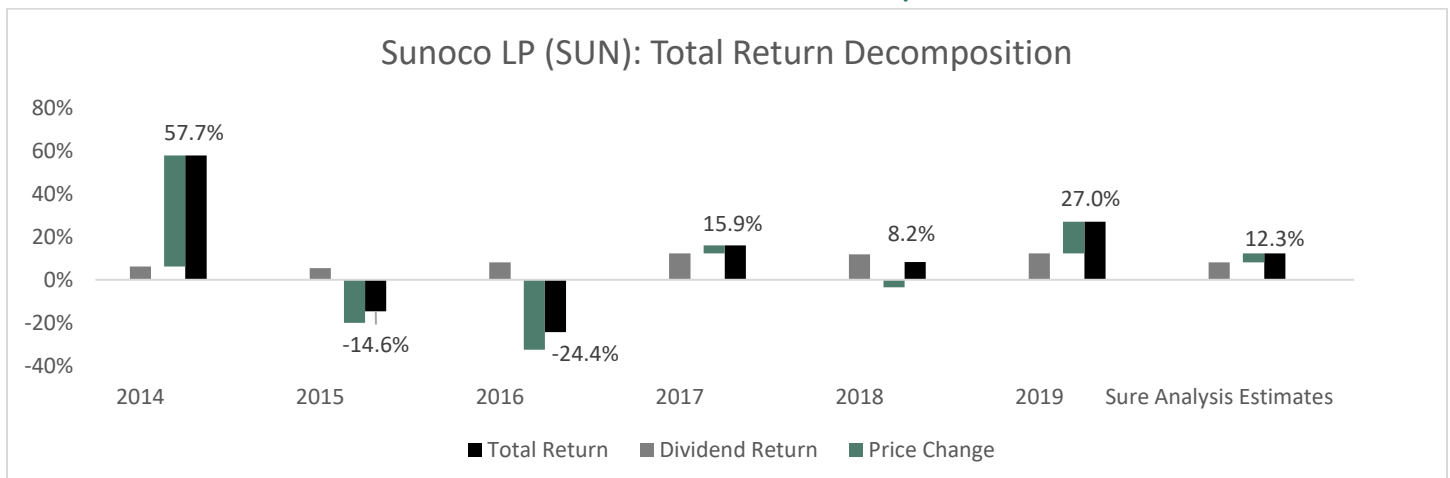
Sunoco's dividend payout ratio has moved in a wide range throughout its existence, as EBITDA has seen steep ups and downs. The company has never cut its dividend, but there have not been any dividend increases since 2017, either. The current yield of 10.6% provides more than ample income. Sunoco has covered its dividend payout by a factor of 1.63 via distributable cash flows during the last 4 quarters, thus the dividend looks rather 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 could 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 Texas. The company trades 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	2,684	3,875	4,321	4,493	---	12,430	9,986	11,723	16,994	16,596
Gross Profit	36	43	52	71	---	980	1,156	1,108	1,122	1,216
Gross Margin	1.3%	1.1%	1.2%	1.6%	---	7.9%	11.6%	9.5%	6.6%	7.3%
SG&A Exp.	12	15	16	18	---	205	236	221	213	197
Operating Profit	15	17	24	41	---	253	370	343	364	532
Operating Margin	0.6%	0.4%	0.5%	0.9%	---	2.0%	3.7%	2.9%	2.1%	3.2%
Net Profit	9	11	18	37	---	190	(406)	149	(207)	313
Net Margin	0.3%	0.3%	0.4%	0.8%	---	1.5%	-4.1%	1.3%	-1.2%	1.9%
Free Cash Flow	3	(5)	(28)	(66)	---	200	390	297	(142)	---
Income Tax	5	(6)	(5)	0	---	29	(72)	(306)	34	(17)

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	---	231	356	390	6,149	8,842	8,701	8,344	4,879	5,438
Cash & Equivalents	---	0	7	8	125	73	103	28	56	21
Accounts Receivable	---	31	33	68	193	161	361	285	299	399
Inventories	---	7	3	11	440	467	423	426	374	419
Goodwill & Int. Ass.	---	44	36	46	2,748	4,371	2,325	2,198	2,267	2,201
Total Liabilities	---	116	277	310	2,306	3,579	6,505	6,097	4,095	4,680
Accounts Payable	---	98	89	110	383	434	616	559	412	445
Long-Term Debt	---	1	185	186	1,106	1,958	4,514	4,290	2,985	3,071

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	---	---	6.0%	9.9%	---	2.5%	-4.6%	1.7%	-3.1%	6.1%
Return on Equity	---	---	18.1%	46.9%	---	4.2%	-10.9%	6.7%	-13.7%	40.6%
Shares Out.	---	---	22	22	24	50	52	100	85	84
Revenue/Share	122.67	177.11	197.48	204.90	---	247.19	106.68	117.55	200.35	198.63
FCF/Share	0.14	(0.22)	(1.26)	(2.99)	---	3.98	4.17	2.98	(1.67)	

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

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