



Sunoco LP (SUN)

Updated November 13th, 2020 by Jonathan Weber

Key Metrics

Current Price:	\$27	5 Year CAGR Estimate:	15.3%	Market Cap:	\$2.3B
Fair Value Price:	\$36	5 Year Growth Estimate:	1.5%	Ex-Dividend Date:	02/06/21 ¹
% Fair Value:	76%	5 Year Valuation Multiple Estimate:	5.8%	Dividend Payment Date:	02/19/21 ²
Dividend Yield:	12.2%	5 Year Price Target	\$39	Years Of Dividend Growth:	0
Dividend Risk Score:	B	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. Sunoco was founded in 2012 and is headquartered in Dallas, Texas.

Sunoco reported its third quarter earnings results on November 4. The partnership reported that its revenues totaled \$2.8 billion during the quarter, which was 35% less than the revenues that Sunoco generated during the previous year's quarter. Fuel prices were down compared to the previous year's quarter, which was one factor for Sunoco's declining revenues. Fuel prices are mostly a flow-through item for Sunoco, as a wholesaler Sunoco's costs decline as well when fuel prices drop. The revenue decline does thus not go hand in hand with an earnings decline of the same magnitude.

In fact, Sunoco reported that its adjusted EBITDA was down only 2%, to \$189 million during the third quarter. Sunoco's distributable cash flows totaled \$139 million during the quarter, which was higher compared to the previous year's quarter by 5%, and which equated to DCF of \$1.67 per share, which covered the dividend at a ratio of 1.61.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
DCF/Share³	---	---	\$1.40	\$2.51	\$3.14	\$7.95	\$4.14	\$4.83	\$5.48	\$5.42	\$5.50	\$5.93
DPS	---	---	\$0.47	\$1.80	\$2.05	\$2.68	\$3.26	\$3.30	\$3.30	\$3.30	\$3.30	\$3.30
Shares⁴	---	---	22	22	24	50	52	98	83	83	84	87

Sunoco does not have a long history, as the partnership 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 DCF-per-share.

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 suppliers. Total gasoline sales declined relatively steadily since around 2000, 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, and although the coronavirus impacts the amount of miles driven in the near term, in the long run gasoline consumption should continue to grow.

¹ Estimated date

² Estimated date

³ EBITDA/share between 2012 and 2015, DCF/share from 2016

⁴ 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
P/DCF	---	---	17.7	11.2	13.4	5.0	6.5	6.0	4.7	5.7	4.9	6.5
Avg. Yld.	---	---	1.9%	6.4%	5.1%	6.1%	9.8%	11.8%	12.7%	10.6%	12.2%	8.6%

Sunoco trades at a low price-to-DCF multiple right now. Sunoco's share price is well below the peak of \$60 that was hit during 2014, whereas profitability, measured by DCF-per-share, is forecasted to hit a new peak in 2020. The combination of these factors explains why Sunoco's current valuation remains very low. We do not believe that the valuations seen in 2012-2014 will come back, as Sunoco was a different, more convenience store-oriented partnership back then, while the sentiment on the industry as a whole has also soured. But we still see upside potential 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%	78.7%	68.3%	60.2%	60.9%	60.0%	55.7%

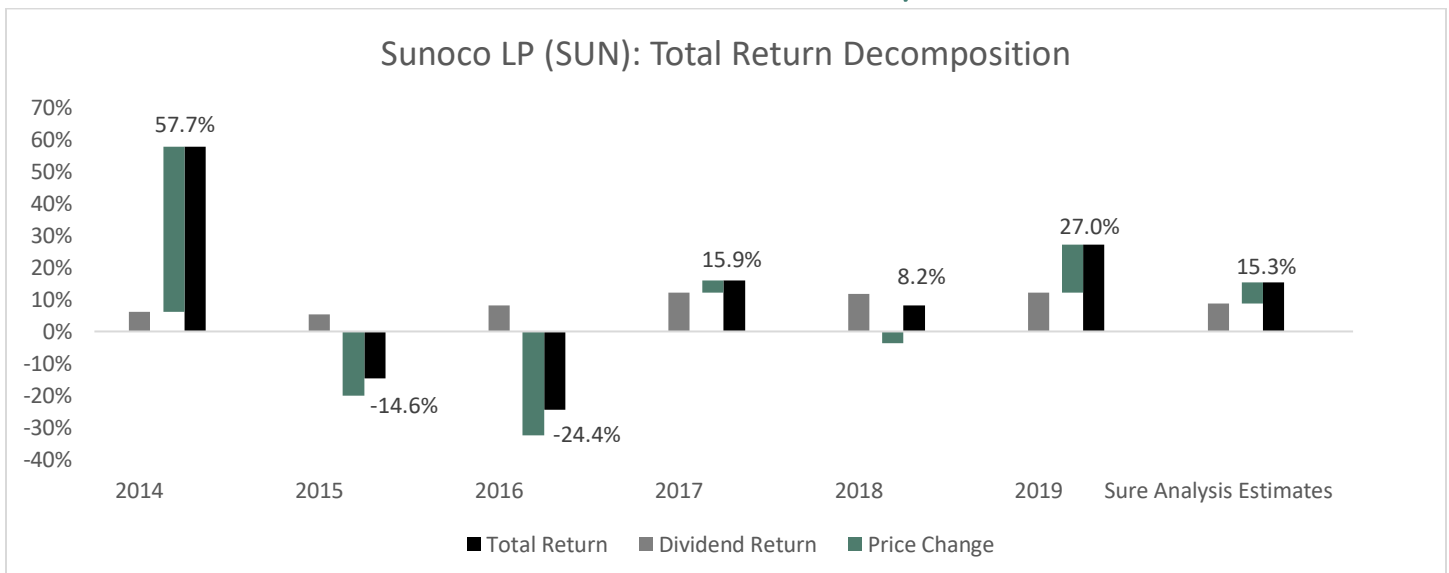
Sunoco's dividend payout ratio has moved in a wide range throughout its existence, as its cash flow has seen steep ups and downs. The partnership has never cut its dividend, but there have not been any dividend increases since 2017, either. The current yield of around 12% provides more than ample income. Sunoco has covered its dividend payout by a factor of 1.56 via distributable cash flows during the last 4 quarters, thus the dividend looks sustainable 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 partnership 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 of Texas. So far the partnership is weathering the coronavirus crisis very well, but there is no guarantee that this will remain the case going forward. The partnership trades below our fair value estimate and could produce compelling total returns, which is why we rate Sunoco a buy.

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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