



Suncor Energy Inc. (SU)

Updated May 23rd, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	\$38	5 Year CAGR Estimate:	4.0%	Market Cap:	\$53.9 B
Fair Value Price:	\$72	5 Year Growth Estimate:	-12.0%	Ex-Dividend Date:	6/2/2022
% Fair Value:	53%	5 Year Valuation Multiple Estimate:	13.5%	Dividend Payment Date:	6/24/2022
Dividend Yield:	4.9%	5 Year Price Target	\$38	Years Of Dividend Growth:	1
Dividend Risk Score:	D	Retirement Suitability Score:	B	Rating:	Sell

Overview & Current Events

Suncor Energy is one of the largest integrated energy producers in Canada. The company is involved in all the aspects of the energy value chain, operating 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\$53.9 billion. Suncor reports financial results in Canadian dollars. However, the figures listed in this research report are in USD.

In early May, Suncor reported (5/9/22) financial results for the first quarter of fiscal 2022. Total upstream production dipped -0.6% over the prior year's quarter due to adverse weather. However, the company greatly benefited from the rally of the price of oil to a 13-year high, which resulted from the recovery of global demand from the pandemic and the sanctions of western countries on Russia for its invasion in Ukraine. As a result, the company more than doubled its adjusted earnings-per-share. Due to the severe downturn in the energy market in 2020, Suncor cut its quarterly dividend by -55% in 2020 and thus it broke its 18-year dividend growth streak (in CAD). We also reiterate that the results of Suncor are very sensitive to commodity prices. On the bright side, thanks to the impressive rally of the price of oil, Suncor doubled its quarterly dividend last year and raised it again, by another 12% this year. Given the 13-year high price of oil and the likelihood for sanctions to persist this year, we have raised our forecast for the annual earnings-per-share of Suncor from \$2.80 (our forecast before the war) to \$5.50.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.79	\$2.52	\$1.60	-\$1.04	\$0.20	\$2.06	\$1.56	\$2.18	-\$1.15	\$2.03	\$5.50	\$2.90
DPS	\$0.50	\$0.71	\$0.89	\$0.86	\$0.84	\$0.99	\$1.11	\$1.27	\$0.83	\$0.83	\$1.88	\$1.60
Shares¹	1,523	1,478	1,444	1,446	1,668	1,641	1,585	1,536	1,525	1,453	1,380	1,300

Suncor was greatly affected by the pandemic in 2020, but the company has recovered strongly thanks to the rally of the oil price. Suncor expects to achieve 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. Despite the strong results in 2017-2019, 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. We expect record earnings-per-share this year thanks to 13-year high oil prices but we expect oil producers to boost their output eventually and thus send oil prices to more normal levels, around \$50-\$60. Given the record earnings expected this year, we expect a -12% average annual decline of earnings-per-share over the next five years.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	17.8	13.0	21.8	---	---	15.6	23.7	14.4	---	10.7	6.9	13.0
Avg. Yld.	1.6%	2.2%	2.5%	3.1%	3.2%	3.1%	3.0%	4.0%	4.6%	3.8%	4.9%	4.2%

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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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. As we have assumed relatively strong earnings in 2027 compared to the 10-year average earnings of the company, we believe that a fair price-to-earnings ratio for this energy company in 2027 is 13. Suncor is currently trading at a price-to-earnings ratio of 6.9, which is much lower than our assumed fair ratio. If the stock trades at our fair valuation level in five years, it will enjoy a 13.5% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	27.9%	28.1%	55.4%	---	43.0%	47.8%	71.3%	58.0%	---	40.9%	34.2%	55.1%

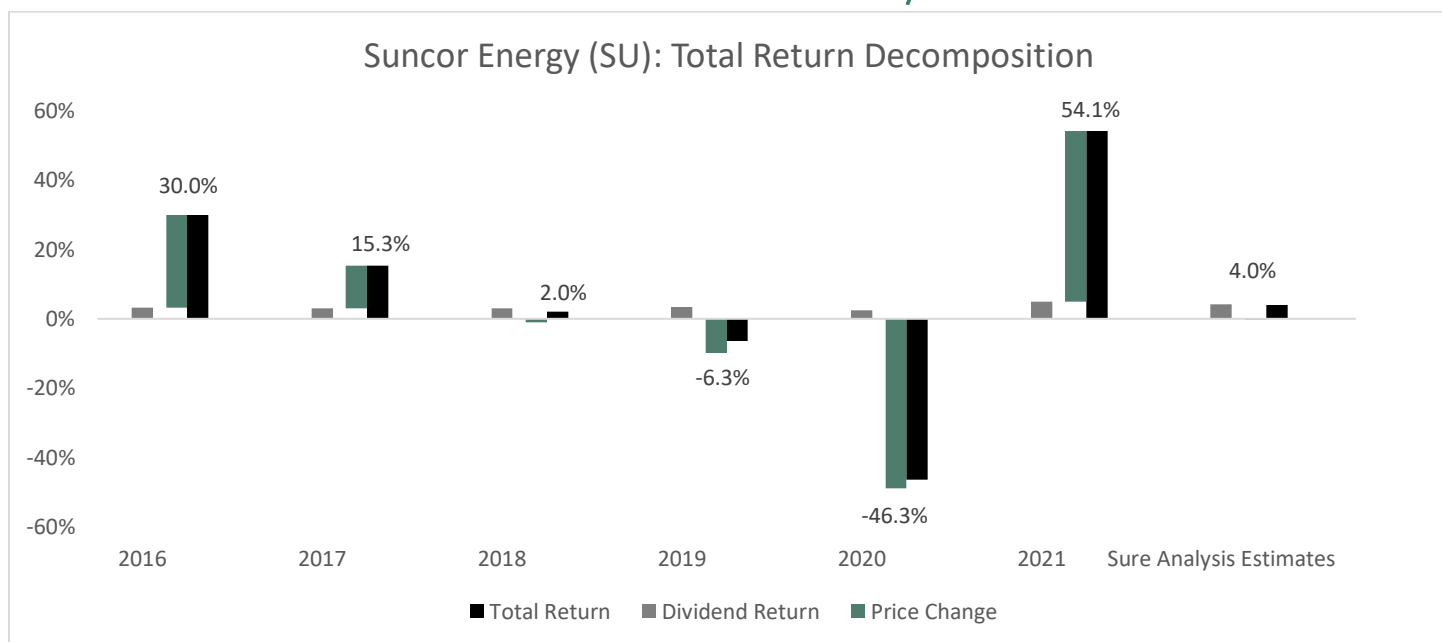
The integrated structure of Suncor Energy somewhat mitigates its exposure to the fluctuations of commodity prices. However, the company is still very sensitive to the underlying crude oil prices. In addition, as a commodity producer, Suncor lacks a meaningful competitive advantage. On the bright side, the company has a decent balance sheet, with only 55% of its assets financed through liabilities and a healthy interest coverage ratio.

Until recently, Suncor was 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 extended well beyond this arbitrary five-year cutoff, but its high sensitivity to oil prices and its vulnerability to downturns forced the company to end its 18-year dividend growth streak (in CAD) in 2020 due to the pandemic. The high cyclical nature of the stock and its volatile performance may render its dividend unsuitable for income-oriented investors.

Final Thoughts & Recommendation

Suncor has rallied 30% since our last research report, in February, and hence it has become much less attractive. While the strong momentum of the stock could persist for a while, we expect the stock to offer just a 4.0% average annual return over the next five years. Due to its high cyclical nature and sensitivity to oil prices, the stock will be vulnerable whenever the next downturn of the energy sector shows up. It thus receives a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	38,118	38,450	36,107	22,884	20,243	24,656	29,741	28,890	18,407	31,212
Gross Profit	14,618	16,905	14,668	7,927	8,165	11,753	14,408	11,460	4,496	15,546
Gross Margin	38.3%	44.0%	40.6%	34.6%	40.3%	47.7%	48.4%	39.7%	24.4%	49.8%
SG&A Exp.	3,503	3,111	3,196	2,781	3,087	2,940	3,211	3,666	7,409	9,066
Operating Profit	4,596	6,512	4,774	(42)	76	3,551	4,959	1,483	(4,205)	4,666
Op. Margin	12.1%	16.9%	13.2%	-0.2%	0.4%	14.4%	16.7%	5.1%	-22.8%	5,299
Net Profit	2,741	3,798	2,445	(1,563)	328	3,440	2,541	2,184	(3,224)	17.0%
Net Margin	7.2%	9.9%	6.8%	-6.8%	1.6%	14.0%	8.5%	7.6%	-17.5%	3,285
Free Cash Flow	1,903	3,227	1,789	170	(681)	1,863	3,993	3,664	(934)	10.5%
Income Tax	2,245	2,394	1,713	(25)	(271)	1,125	1,304	(276)	(1,327)	5,750

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	76,798	73,551	68,631	55,868	65,790	71,168	65,769	68,466	66,357	65,676
Cash & Equivalents	4,408	4,886	4,734	2,918	2,237	2,125	1,631	1,500	1,478	1,729
Acc. Receivable	5,228	4,934	3,683	1,982	2,360	2,609	2,354	3,102	2,476	3,556
Inventories	3,716	3,704	2,986	2,227	2,403	2,758	2,319	2,879	2,837	3,223
Goodwill & Int.	3,120	2,904	2,656	2,219	2,281	2,434	2,247	2,341	2,610	2,763
Total Liabilities	37,379	34,876	32,793	27,735	32,688	35,078	33,460	36,281	38,316	36,960
Accounts Payable	6,480	6,659	4,914	3,824	4,145	4,933	4,146	5,018	3,673	5,100
Long-Term Debt	11,081	9,771	10,592	10,114	12,928	11,396	12,738	11,513	14,736	12,160
Total Equity	39,419	38,675	35,838	28,132	33,102	36,090	32,308	32,185	28,041	28,716
LTD/E Ratio	0.28	0.25	0.30	0.36	0.39	0.32	0.39	0.36	0.53	0.42

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	3.7%	5.1%	3.4%	-2.5%	0.5%	5.0%	3.7%	3.3%	-4.8%	5.0%
Return on Equity	7.1%	9.7%	6.6%	-4.9%	1.1%	9.9%	7.4%	6.8%	-10.7%	11.6%
ROIC	5.5%	7.7%	5.2%	-3.7%	0.8%	7.4%	5.5%	4.9%	-7.5%	7.9%
Shares Out.	1,523	1,478	1,444	1,446	1,668	1,641	1,585	1,536	1,525	1,453
Revenue/Share	24.61	25.60	24.65	15.82	12.56	14.81	18.26	18.51	12.06	20.96
FCF/Share	1.23	2.15	1.22	0.12	(0.42)	1.12	2.45	2.35	(0.61)	3.86

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

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