



Sunoco LP (SUN)

Updated November 21st, 2022 by Jonathan Weber

Key Metrics

Current Price:	\$43	5 Year CAGR Estimate:	9.2%	Market Cap:	\$3.6B
Fair Value Price:	\$47	5 Year Growth Estimate:	1.5%	Ex-Dividend Date:	02/04/23 ¹
% Fair Value:	92%	5 Year Valuation Multiple Estimate:	1.7%	Dividend Payment Date:	02/19/23 ²
Dividend Yield:	7.7%	5 Year Price Target	\$50	Years Of Dividend Growth:	0
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Hold

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 1. The company reported that its revenues totaled \$6.6 billion during the quarter, which was 38% more than the revenues that Sunoco generated during the previous year's quarter. Fuel prices were up by a lot compared to the previous year's COVID-impacted quarter, which boosted revenues. Fuel prices are mostly a flow-through item for Sunoco since Sunoco's costs increase as well when fuel prices rise. The revenue increase does thus not necessarily go hand in hand with an earnings increase of the same magnitude.

Sunoco reported that its adjusted EBITDA was up 39% year over year, rising to \$276 million during the quarter. Sunoco's distributable cash flows totaled \$196 million during the quarter, which was 34% higher compared to the previous year's quarter, and which equated to DCF of \$2.31 per share, which covered the dividend easily. For 2022, Sunoco is forecasting EBITDA of around \$845 million to \$865 million, representing growth of around 15% versus 2021.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
DCF/Share³	\$1.40	\$2.51	\$3.14	\$7.95	\$4.14	\$4.83	\$5.48	\$5.42	\$6.23	\$6.45	\$7.20	\$7.76
DPS	\$0.47	\$1.80	\$2.05	\$2.68	\$3.26	\$3.30	\$3.30	\$3.30	\$3.30	\$3.30	\$3.30	\$3.30
Shares⁴	22	22	24	50	52	98	83	83	83	84	85	87

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 DCF-per-share.

In Sunoco's industry, the company 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. In August 2021, Sunoco agreed to acquire eight refined products terminals from NuStar Energy for \$250 million, with these deals being expected to be accretive immediately after closing. Sunoco acquired an additional terminal from Cato, Inc. around the same time. In 2022, Sunoco closed the \$190 million acquisition of a processing and terminal facility from Gladieux Partners.

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
P/DCF	17.7	11.2	13.4	5.0	6.5	6.0	4.7	5.7	4.7	6.4	6.0	6.5
Avg. Yld.	1.9%	6.4%	5.1%	6.1%	9.8%	11.8%	12.7%	10.6%	11.4%	8.0%	7.7%	6.5%

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, hit a new peak in 2021. The combination of these factors explains why Sunoco's current valuation remains low. We do not believe that the valuations seen in 2012-2014 will come back, as Sunoco was a different, more convenience store-oriented company back then. But we still see some upside potential from the current valuation level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	71.7%	65.3%	33.7%	78.7%	68.3%	60.2%	60.9%	53.0%	51.1%	45.8%	42.5%

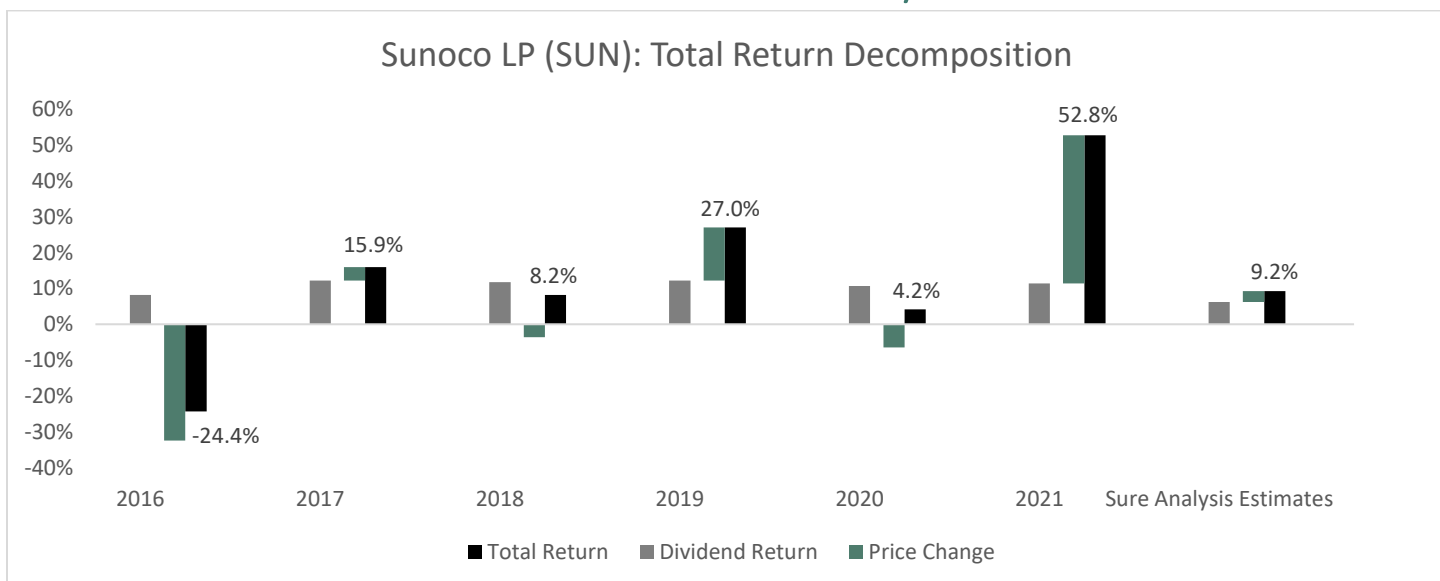
Sunoco's dividend payout ratio has moved in a wide range throughout its existence, as its cash flow has seen steep ups and downs. The company has never cut its dividend, but there have not been any dividend increases since 2017, either. The current yield of around 8% provides more than ample income. Sunoco has covered its dividend payout by a factor of 1.9 via distributable cash flows during the last 4 quarters, thus the dividend looks sustainable.

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 a fuel wholesale company with significant scale in its biggest market, Texas. Fuel wholesale is an industry that is not experiencing a lot of growth, but Sunoco's business is throwing off a lot of cash. The company weathered the coronavirus crisis very well, as distributable cash flows hit a new record high in both 2020 and 2021. The company trades below our fair value estimate and could produce solid total returns, which is why we rate Sunoco a hold today.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	4,321	4,493		12,430	9,986	11,723	16,994	16,596	10,710	17,596
Gross Profit	44	62		830	980	939	940	1,033	867	1,173
Gross Margin	1.0%	1.4%		6.7%	9.8%	8.0%	5.5%	6.2%	8.1%	6.7%
SG&A Exp.	16	18		205	236	221	213	197	173	168
Operating Profit	24	41		253	370	343	364	532	419	735
Operating Margin	0.5%	0.9%		2.0%	3.7%	2.9%	2.1%	3.2%	3.9%	4.2%
Net Profit	18	37		190	(406)	149	(207)	235	135	446
Net Margin	0.4%	0.8%		1.5%	-4.1%	1.3%	-1.2%	1.4%	1.3%	2.5%
Free Cash Flow	(28)	(66)		200	390	297	(142)	287	378	369
Income Tax	(5)	0		29	(72)	(306)	34	(17)	24	30

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	356	390	6,149	8,842	8,701	8,344	4,879	5,438	5,267	5,815
Cash & Equivalents	7	8	125	73	103	28	56	21	97	25
Accounts Receivable	33	68	193	161	361	285	299	337	239	428
Inventories	3	11	440	467	423	426	374	419	382	534
Goodwill & Int. Ass.	36	46	2,748	4,371	2,325	2,198	2,267	2,201	2,152	2,110
Total Liabilities	277	310	2,306	3,579	6,505	6,097	4,095	4,680	4,635	5,004
Accounts Payable	89	110	383	434	616	559	412	445	267	515
Long-Term Debt	185	186	1,106	1,958	4,514	4,290	2,985	3,071	3,112	3,255

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	6.0%	9.9%		2.5%	-4.6%	1.7%	-3.1%	4.6%	2.5%	8.0%
Return on Equity	18.1%	46.9%		4.2%	-10.9%	6.7%	-13.7%	30.5%	19.4%	61.8%
Shares Out.	22	22	24	50	52	98	83	83	83	84
Revenue/Share	197.48	204.90		247.19	106.68	117.55	200.35	198.63	127.93	208.39
FCF/Share	(1.26)	(2.99)		3.98	4.17	2.98	(1.67)	3.44	4.52	4.37

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

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