Suncor Energy Inc. (SU)

Updated February 29th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	$34	**5 Year CAGR Estimate:**	5.7%	**Market Cap:**	$43.3 B
Fair Value Price:	$47	**5 Year Growth Estimate:**	-5.0%	**Ex-Dividend Date:**	3/1/2024
% Fair Value:	73%	**5 Year Valuation Multiple Estimate:**	6.6%	**Dividend Payment Date:**	3/25/2024
Dividend Yield:	4.7%	**5 Year Price Target**	$36	**Years Of Dividend Growth:**	3
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Rating:**	Hold

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$43.3 billion. Suncor reports financial results in Canadian dollars. However, the figures listed in this research report are in USD.

In late February, Suncor reported (2/21/24) financial results for the fourth quarter of fiscal 2023. Its upstream production grew 6% over the prior year's quarter thanks to record oil sands production while the refinery segment posted a strong utilization rate of 88%. Nevertheless, due to much lower oil prices, adjusted earnings-per-share declined -30%. Due to the severe downturn in the energy market in 2020, Suncor cut its quarterly dividend by -55% in that year 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 above-average oil prices and refining margins, Suncor has grown its dividend strongly in each of the last three years, to an all-time high level.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.60	-$1.04	$0.20	$2.06	$1.56	$2.18	-$1.15	$2.03	$6.24	$3.78	***$3.60***	***$2.79***
DPS	$0.89	$0.86	$0.84	$0.99	$1.11	$1.27	$0.83	$0.83	$1.45	$1.55	***$1.61***	***$1.82***
Shares[1]	1,444	1,446	1,668	1,641	1,585	1,536	1,525	1,453	1,350	1,296	***1,250***	***1,200***

Suncor was greatly affected by the pandemic in 2020, but the company has recovered strongly thanks to favorable oil prices and wide refining margins. 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 somewhat lower earnings this year due to a moderation of oil prices. We also expect oil producers to boost their output eventually and thus send oil prices to more normal levels, around $50-$60. Given the somewhat high comparison base formed this year, we expect a -5% average annual decline of earnings-per-share over the next five years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	21.8	---	---	15.6	23.7	14.4	---	10.7	5.3	8.4	***9.4***	***13.0***
Avg. Yld.	2.5%	3.1%	3.2%	3.1%	3.0%	4.0%	4.6%	3.8%	4.4%	4.9%	***4.7%***	***5.0%***

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 2029 compared to

[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.

the 10-year average earnings of the company, we believe that a fair price-to-earnings ratio for this energy company in 2029 is 13. Suncor is currently trading at a price-to-earnings ratio of 9.4, 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 6.6% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	55.4%	---	43.0%	47.8%	71.3%	58.0%	---	40.9%	23.2%	41.0%	***44.7%***	***65.4%***

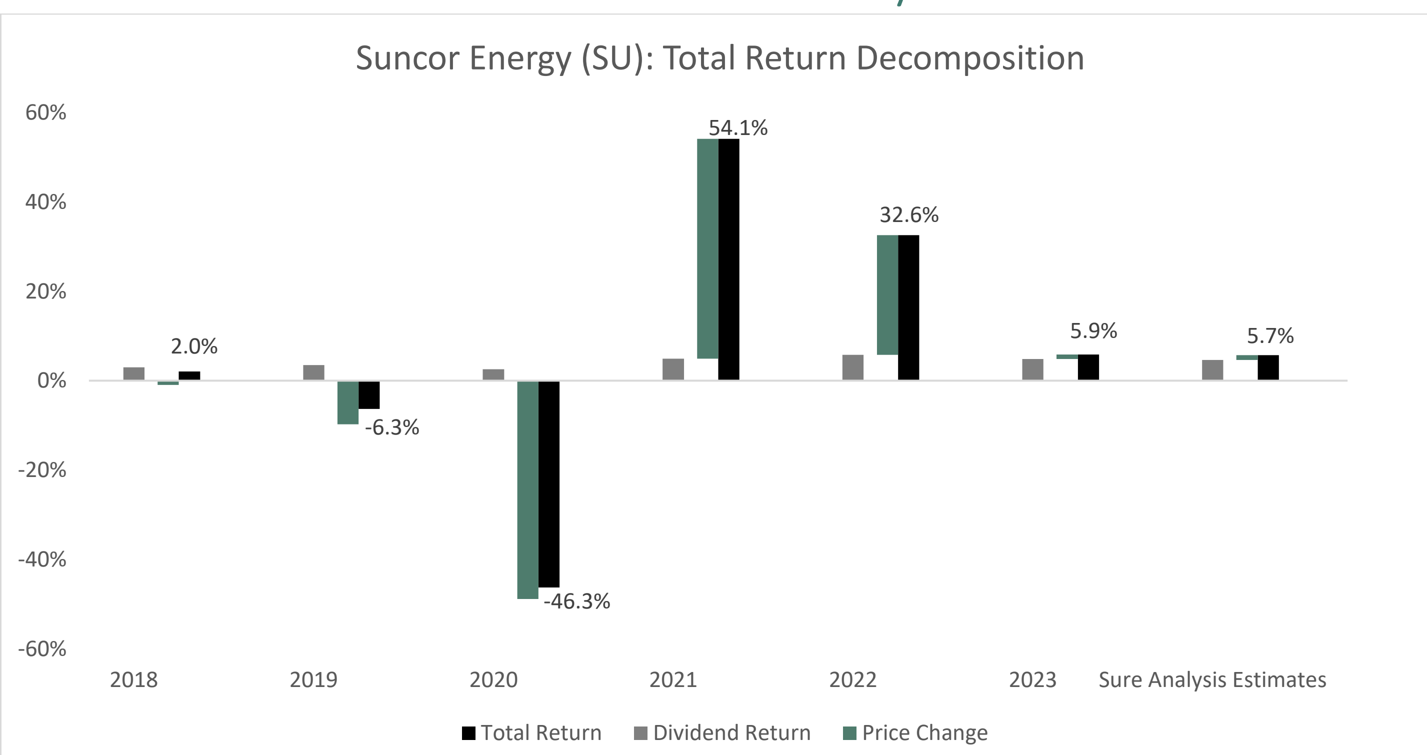
The integrated structure of Suncor Energy somewhat mitigates its exposure to the fluctuations of commodity prices. However, the company is still very sensitive to the underlying crude oil prices. In addition, as a commodity producer, Suncor lacks a meaningful competitive advantage. On the bright side, the company has a decent balance sheet, with only 51% of its assets financed through liabilities and a solid interest coverage ratio of 13.

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 cyclicality of the stock and its volatile performance may render its dividend unsuitable for income-oriented investors.

Final Thoughts & Recommendation

Suncor is currently thriving thanks to favorable oil prices and refining margins. The stock could offer a 5.7% average annual return over the next five years thanks to a 4.7% dividend and a 6.6% valuation tailwind, partly offset by a -5.0% decline of earnings-per-share. The stock receives a hold rating, but investors should be aware of its high cyclicality.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	36,107	22,884	20,243	24,656	29,741	28,890	18,407	32,808	48,352	38,664
Gross Profit	14,668	7,927	8,165	11,753	14,408	11,460	4,496	15,546	22,117	18,102
Gross Margin	40.6%	34.6%	40.3%	47.7%	48.4%	39.7%	24.4%	47.4%	45.7%	46.8%
SG&A Exp.	3,196	2,781	3,087	2,940	3,211	3,666	7,409	5,910	6,177	640
Operating Profit	4,774	(42)	76	3,551	4,959	1,483	(4,205)	5132	10,785	6,821
Op. Margin	13.2%	-0.2%	0.4%	14.4%	16.7%	5.1%	-22.8%	15.6%	22.3%	17.6%
Net Profit	2,445	(1,563)	328	3,440	2,541	2,184	(3,224)	3,285	6,977	6,143
Net Margin	6.8%	-6.8%	1.6%	14.0%	8.5%	7.6%	-17.5%	10.0%	14.4%	15.9%
Free Cash Flow	1,789	170	(681)	1,863	3,993	3,664	(934)	5,750	8,117	4,746
Income Tax	1,713	(25)	(271)	1,125	1,304	(276)	(1,327)	1,157	2,490	1,699

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	68,631	55,868	65,790	71,168	65,769	68,466	66,357	65,676	62,347	66,741
Cash & Equivalents	4,734	2,918	2,237	2,125	1,631	1,500	1,478	1,729	1,459	1,303
Acc. Receivable	3,683	1,982	2,360	2,609	2,354	3,102	2,476	3,556	4,471	4,323
Inventories	2,986	2,227	2,403	2,758	2,319	2,879	2,837	3,223	3,727	4,044
Goodwill & Int.	2,656	2,219	2,281	2,434	2,247	2,341	2,610	2,763	2,642	2,659
Total Liabilities	32,793	27,735	32,688	35,078	33,460	36,281	38,316	36,960	33,341	34,117
Accounts Payable	4,914	3,824	4,145	4,933	4,146	5,018	3,673	5,100	6,018	5,828
Long-Term Debt	10,592	10,114	12,928	11,396	12,738	11,513	14,736	12,160	9,289	8,730
Total Equity	35,838	28,132	33,102	36,090	32,308	32,185	28,041	28,716	29,006	32,624
LTD/E Ratio	0.30	0.36	0.39	0.32	0.39	0.36	0.53	0.42	0.32	0.27

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.4%	-2.5%	0.5%	5.0%	3.7%	3.3%	-4.8%	5.0%	10.9%	9.5%
Return on Equity	6.6%	-4.9%	1.1%	9.9%	7.4%	6.8%	-10.7%	11.6%	24.2%	19.9%
ROIC	5.2%	-3.7%	0.8%	7.4%	5.5%	4.9%	-7.5%	7.9%	17.6%	15.4%
Shares Out.	1,444	1,446	1,668	1,641	1,585	1,536	1,525	1489	1390	1310
Revenue/Share	24.65	15.82	12.56	14.81	18.26	18.51	12.06	22.03	34.79	29.51
FCF/Share	1.22	0.12	(0.42)	1.12	2.45	2.35	(0.61)	3.86	5.84	3.62

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

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