



Suncor Energy Inc. (SU)

Updated February 7th, 2025 by Aristofanis Papadatos

Key Metrics

Current Price:	\$38	5 Year CAGR Estimate:	6.1%	Market Cap:	\$48.7 B
Fair Value Price:	\$40	5 Year Growth Estimate:	1.0%	Ex-Dividend Date:	3/4/2025
% Fair Value:	94%	5 Year Valuation Multiple Estimate:	1.2%	Dividend Payment Date:	3/25/2025
Dividend Yield:	4.2%	5 Year Price Target	\$42	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\$48.7 billion. Suncor reports financial results in Canadian dollars. However, the figures listed in this research report are in USD.

In early February, Suncor reported (2/5/25) financial results for the fourth quarter of fiscal 2024. It posted record production, refining volumes and asset utilization. It grew its production 7% over the prior year's quarter and posted refinery utilization of 104%. However, due to lower prices of oil and gas, adjusted earnings-per-share dipped -1%. Suncor provided guidance for essentially flat production this year and a decrease in refinery utilization from 100% to 93%-97% due to maintenance. Given also our expectations for somewhat lower oil prices, we expect lower earnings this year.

Due to the severe downturn in the energy market in 2020, Suncor cut its dividend by -55% in that year and thus broke its 18-year growth streak (in CAD). The results of Suncor are very sensitive to commodity prices. On the bright side, thanks to above-average oil prices, Suncor has grown its dividend strongly in each of the last three years, to an all-time high.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	-\$1.04	\$0.20	\$2.06	\$1.56	\$2.18	-\$1.15	\$2.03	\$6.24	\$3.78	\$3.77	\$3.20	\$3.36
DPS	\$0.86	\$0.84	\$0.99	\$1.11	\$1.27	\$0.83	\$0.83	\$1.45	\$1.55	\$1.61	\$1.61	\$1.82
Shares¹	1,446	1,668	1,641	1,585	1,536	1,525	1,453	1,350	1,296	1,258	1,240	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. The company currently benefits from above average oil prices thanks to deep production cuts of OPEC and Russia but we expect oil prices to revert to more normal levels, around \$50-\$60 in the upcoming years. The effect of lower oil prices is likely to be offset by production growth and an increase in refinery utilization, after extensive maintenance this year. Overall, we expect 1% average annual growth of earnings-per-share over the next five years.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	---	---	15.6	23.7	14.4	---	10.7	5.3	8.4	9.9	11.9	12.6
Avg. Yld.	3.1%	3.2%	3.1%	3.0%	4.0%	4.6%	3.8%	4.4%	4.9%	4.3%	4.2%	4.3%

¹ In millions.

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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. We believe that a fair price-to-earnings ratio for this energy company is 12.6, which is the 10-year average of the tock. Suncor is currently trading at a price-to-earnings ratio of 11.9, which is lower than our assumed fair ratio. If the stock trades at our fair valuation level in five years, it will enjoy a 1.2% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	---	43.0%	47.8%	71.3%	58.0%	---	40.9%	23.2%	41.0%	42.7%	50.3%	54.2%

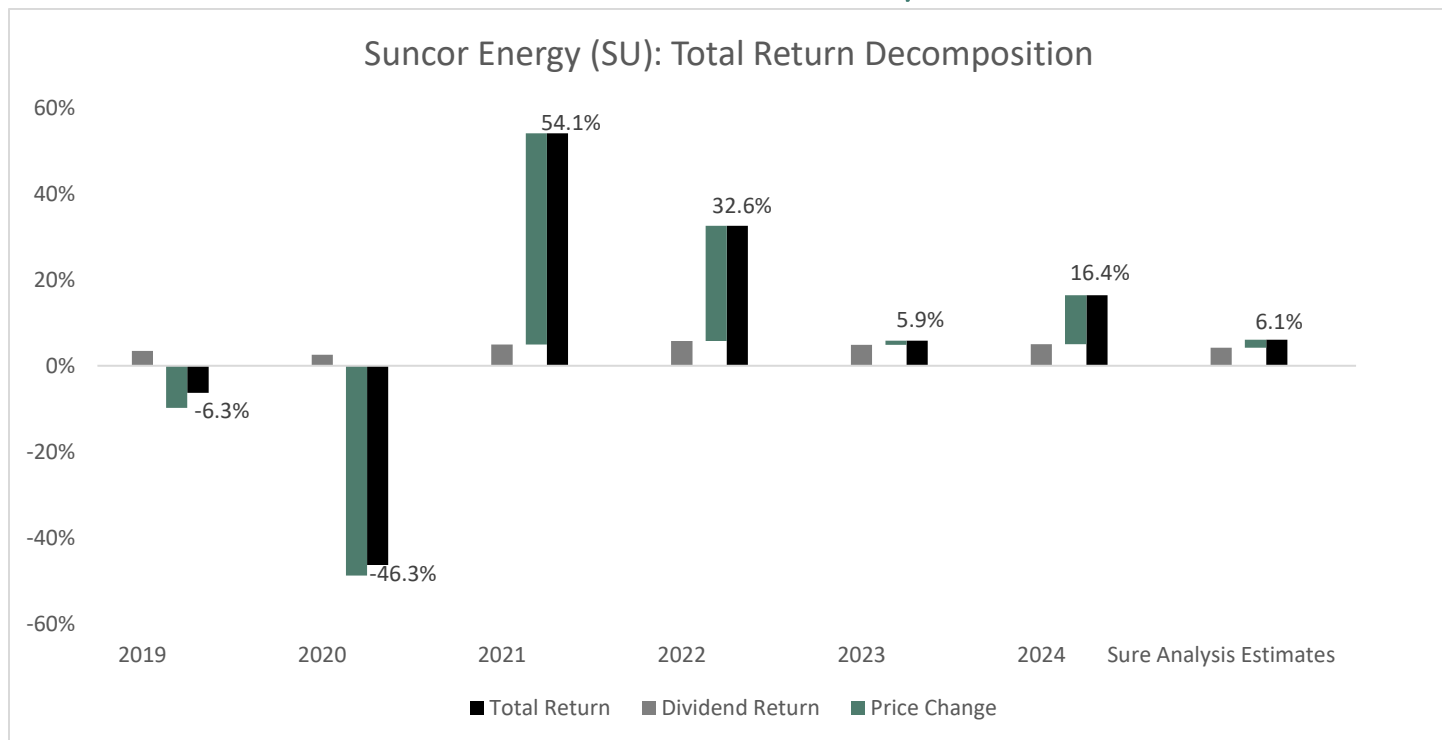
The integrated structure of Suncor Energy somewhat mitigates its exposure to the fluctuations of commodity prices. However, the company is still very sensitive to the underlying crude oil prices. In addition, as a commodity producer, Suncor lacks a meaningful competitive advantage. On the bright side, the company has a decent balance sheet, with only 50% of its assets financed through liabilities and a solid interest coverage ratio of 5.3.

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 cyclicalty 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 above average oil prices. The stock could offer a 6.1% average annual return over the next five years thanks to 1% growth of earnings-per-share, a 4.2% dividend and a 1.2% valuation tailwind. The stock maintains its hold rating, but investors should be aware of its high cyclicalty.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	22,884	20,243	24,656	29,741	28,890	18,407	32,808	48,352	38,664	40,036
Gross Profit	7,927	8,165	11,753	14,408	11,460	4,496	15,546	22,117	18,102	17,960
Gross Margin	34.6%	40.3%	47.7%	48.4%	39.7%	24.4%	47.4%	45.7%	46.8%	44.9%
SG&A Exp.	2,781	3,087	2,940	3,211	3,666	7,409	5,910	6,177	640	1,716
Operating Profit	(42)	76	3,551	4,959	1,483	(4,205)	5132	10,785	6,821	6,591
Op. Margin	-0.2%	0.4%	14.4%	16.7%	5.1%	-22.8%	15.6%	22.3%	17.6%	16.5%
Net Profit	(1,563)	328	3,440	2,541	2,184	(3,224)	3,285	6,977	6,143	4,389
Net Margin	-6.8%	1.6%	14.0%	8.5%	7.6%	-17.5%	10.0%	14.4%	15.9%	11.0%
Free Cash Flow	170	(681)	1,863	3,993	3,664	(934)	5,750	8,117	4,746	6,913
Income Tax	(25)	(271)	1,125	1,304	(276)	(1,327)	1,157	2,490	1,699	1,584

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	55,868	65,790	71,168	65,769	68,466	66,357	65,676	62,347	66,741	62,559
Cash & Equivalents	2,918	2,237	2,125	1,631	1,500	1,478	1,729	1,459	1,303	2,428
Acc. Receivable	1,982	2,360	2,609	2,354	3,102	2,476	3,556	4,471	4,323	3,655
Inventories	2,227	2,403	2,758	2,319	2,879	2,837	3,223	3,727	4,044	3,512
Goodwill & Int.	2,219	2,281	2,434	2,247	2,341	2,610	2,763	2,642	2,659	2,441
Total Liabilities	27,735	32,688	35,078	33,460	36,281	38,316	36,960	33,341	34,117	31,543
Accounts Payable	3,824	4,145	4,933	4,146	5,018	3,673	5,100	6,018	5,828	5,686
Long-Term Debt	10,114	12,928	11,396	12,738	11,513	14,736	12,160	9,289	8,730	7,208
Total Equity	28,132	33,102	36,090	32,308	32,185	28,041	28,716	29,006	32,624	31,016
LTD/E Ratio	0.36	0.39	0.32	0.39	0.36	0.53	0.42	0.32	0.27	0.23

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	-2.5%	0.5%	5.0%	3.7%	3.3%	-4.8%	5.0%	10.9%	9.5%	6.8%
Return on Equity	-4.9%	1.1%	9.9%	7.4%	6.8%	-10.7%	11.6%	24.2%	19.9%	13.8%
ROIC	-3.7%	0.8%	7.4%	5.5%	4.9%	-7.5%	7.9%	17.6%	15.4%	11.0%
Shares Out.	1,446	1,668	1,641	1,585	1,536	1,525	1489	1390	1310	1276
Revenue/Share	15.82	12.56	14.81	18.26	18.51	12.06	22.03	34.79	29.51	31.38
FCF/Share	0.12	(0.42)	1.12	2.45	2.35	(0.61)	3.86	5.84	3.62	5.42

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

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