

## Suncor Energy Inc. (SU)

**\$29.10** (As of 02/07/20)

Price Target (6-12 Months): **\$34.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Outperform**

(Since: 01/09/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: C

## Summary

While Suncor Energy shares have underperformed the Zacks Oil & Gas-Canadian Integrated Market industry over the past year (-10% vs. -6.4%), it looks well positioned for future price appreciation. Suncor is one of the best positioned companies in the energy space given its access to abundant resources, rich operating experience and technical know-how. Importantly, production ramp-ups at the company's Syncrude and Hebron operations are expected to drive volumes and cash flows. Balance-sheet strength and investor-friendly moves also bode well. In particular, the company's healthy dividend growth streak and aggressive share buyback program stand out in the Suncor story. Consequently, Suncor Energy is expected to offer substantial upside potential from current levels and is viewed as a preferred Canadian energy play to own now.

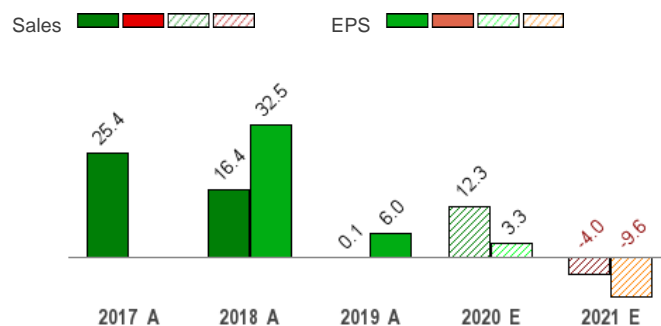
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	<b>\$34.87 - \$27.28</b>
20 Day Average Volume (sh)	<b>3,495,867</b>
Market Cap	<b>\$44.6 B</b>
YTD Price Change	<b>-11.3%</b>
Beta	<b>1.10</b>
Dividend / Div Yld	<b>\$1.40 / 4.3%</b>
Industry	<b><u>Oil and Gas - Integrated - Canadian</u></b>
Zacks Industry Rank	<b>Top 42% (106 out of 254)</b>

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>-22.0%</b>
Last Sales Surprise	<b>-18.0%</b>
EPS F1 Est- 4 week change	<b>4.9%</b>
Expected Report Date	<b>NA</b>
Earnings ESP	<b>0.0%</b>
P/E TTM	<b>13.7</b>
P/E F1	<b>13.3</b>
PEG F1	<b>1.9</b>
P/S TTM	<b>1.5</b>

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					31,850 E
2020	8,784 E	8,819 E	8,867 E	8,804 E	33,166 E
2019	7,068 A	7,549 A	7,500 A	7,272 A	29,541 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$1.98 E
2020	\$0.54 E	\$0.56 E	\$0.58 E	\$0.52 E	\$2.19 E
2019	\$0.58 A	\$0.60 A	\$0.55 A	\$0.39 A	\$2.12 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/07/2020. The reports text is as of 02/10/2020.

## Overview

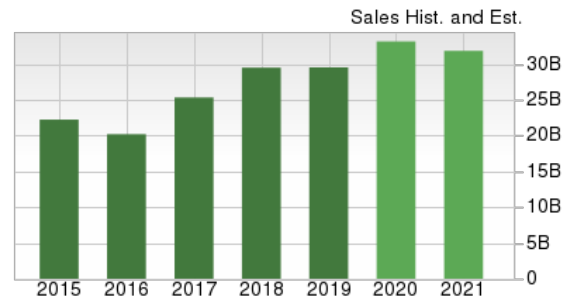
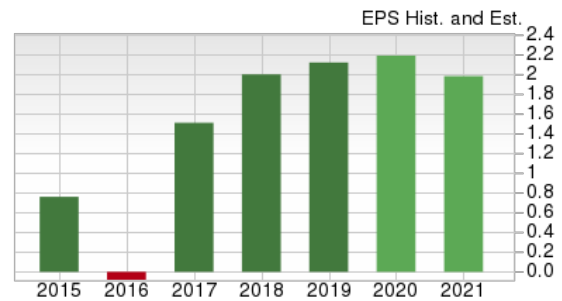
Founded in 1917, Alberta-based Suncor Energy, Inc. is Canada's premier integrated energy company. The company's operations include oil sands development and upgrading, conventional and offshore crude oil and gas production, petroleum refining, and product marketing. Suncor is one of the largest owners of oil sands in the world. The company has gained new oil sands properties to supplement its existing operations in northern Alberta, making it the dominant producer in the region where reserves are second only to Saudi Arabia.

Suncor's business can be divided into three main segments: Oil Sands, Exploration and Production (E&P), and Refining and Marketing.

**Oil Sands:** This segment mines and upgrades oil sands in Canada's Alberta province to produce refinery-ready synthetic crude oil. Oil Sands' base operations include Millennium and North and Steepbank facilities. The segments in-situ oil sands operations are at MacKay River and Firebag. The in-situ output is either upgraded by Oil Sands Base or blended with diluent and marketed directly to customers. This unit also includes Suncor's 54% and 59% stakes in Fort Hills and Syncrude projects, respectively. The segment accounted for 41% of the company's 2019 operating revenues.

**Exploration and Production (E&P):** This unit includes offshore operations off the east coast of Canada and in the North Sea, and onshore operations in Libya and Syria. E&P Canada includes Suncor's stakes in Terra Nova, Hibernia, White Rose and Hebron projects. E&P International has stakes in Buzzard, Golden Eagle and Rosebank assets in the North Sea. The company also owns oilfields in Sirte Basin in Libya and stakes in Elba gas development in Syria. The segment accounted for 7% of the company's 2019 operating revenues.

**Refining and Marketing:** Suncor's refining operations are located in Edmonton, Alberta, Montreal, Quebec, Sarnia, Ontario and Commerce City, CO. Refined products from its refineries are marketed through Sunoco and Petro-Canada branded retail outlets. The segment accounted for 52% of the company's 2019 operating revenues.



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## Reasons To Buy:

- ▲ Suncor boasts an impressive supply chain network, owning significant oil sands and conventional production platforms, along with a strong downstream portfolio with a network of more than 1500 Petro-Canada retail and wholesale outlets. This makes the company less exposed to the volatile commodity market. Suncor's integrated business model positions it well for strong cash flow generation.
- ▲ Suncor's major projects, including Fort Hills, Syncrude, and Hebron, should support its growth momentum and earnings. The company has completed all spending on production ramp-up in the additional stakes it purchased in Fort Hills and Hebron in 2018. Last year, production from Fort Hills, Syncrude and Hebron averaged 85,300 barrels per day (Bbl/d), 172,300 Bbl/d and 23,500 Bbl/d, respectively, which represent increases of 27%, 19% and 81% over their 2018 production level.
- ▲ Suncor's modest leverage ratio of around 23.5% provides it financial flexibility to tap growth opportunities. The company's investor-friendly moves also boost investors' sentiments. Suncor has hiked its dividend for 18 consecutive years now. Being confident of its strong cash-flow generation ability, the company also approved a new stock repurchase authorization program of up to additional C\$2 billion, effective Mar 1.
- ▲ Following the Petro-Canada acquisition, Suncor has become one of the largest owners of oil sands in the world. The company has gained new oil sands properties to supplement its existing operations in northern Alberta, making it the dominant producer in the region where reserves are second only to Saudi Arabia. The oil sands assets of the 'new' Suncor promises years of production growth as prices strengthen from the recession-driven lows and conventional reserves become harder to find. Further, the company has not been shy of divesting assets – particularly those that do not fit into the company's long-term growth plan – to free up capital for longer-term high-grade prospects.

Production ramp-ups at the company's Syncrude and Hebron projects are expected to drive future volumes and cash flows.

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## Risks

- Suncor's results are heavily levered to changes in the overall energy price environment, which are inherently volatile and subject to complex market forces. Realized prices could differ significantly from our estimates, thereby affecting the company's revenues, earnings and cash flows. This may present a potential risk to our recommendation.
  - Pipeline construction in Canada has failed to keep pace with the rising domestic oil, which may force producers like Suncor to sell their products at a discounted rate, thus limiting the overall profits.
  - Suncor's major focus is on the production of crude from the Alberta oil sands. This is a high-risk strategy considering the extra costs associated with the extraction of oil from the oil sands compared to production from conventional oil wells.
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## Last Earnings Report

### Suncor Q4 Earnings Miss, Hikes Dividend

Suncor Energy announced fourth-quarter 2019 results wherein its earnings missed estimates. The company's operating earnings per share of 39 cents lagged the Zacks Consensus Estimate of 50 cents, attributable to lower output contribution from Fort Hills and Syncrude operations.

However, the bottom line improved 40.74% from the prior-year figure of 27 cents per share. This upside in the year-over-year results is driven by a strong production in the East Coast Canada and Oda.

Moreover, quarterly operating revenues of \$7,226.05 million fell short of the Zacks Consensus Estimate of \$8,864 million. However, the top line increased 6.74% from \$6,769 million in the year-ago quarter.

Quarter Ending **12/2019**

Report Date	Feb 05, 2020
Sales Surprise	-17.96%
EPS Surprise	-22.00%
Quarterly EPS	0.39
Annual EPS (TTM)	2.12

### Upstream

Total upstream production in the reported quarter was 778,200 barrels of oil equivalent per day (Boe/d), down 6.35% from the prior-year level of 831,000 Boe/d. This fall in output was due to a drop in the Oil Sands production, caused by planned maintenance and mandatory production cuts implemented by the Alberta government. However, this upstream unit recorded operating earnings of C\$508 million against a loss of C\$269 million in the prior-year quarter, courtesy of higher output contribution from East Coast Canada and Oda.

Notably, Fort Hills production came in at 87,900 barrels per day (Bbl/d) in the quarter, lower than 98,500 Bbl/d registered in the year-ago period due to production curtailments and planned maintenance.

Also, the same induced lower output from Syncrude operations that scaled down to 156,300 Bbl/d from 209,600 Bbl/d a year earlier.

Oil Sands operations volume was 418,100 Bbl/d compared with 432,700 Bbl/d in the year-earlier quarter. Operating costs per barrel increased to C\$28.55 in the quarter under review from C\$24.5 in the corresponding period of 2018. However, upgrader utilization increased to 86% from 79% in the comparable quarter last year.

Suncor Energy's Exploration and Production segment (consisting of International, Offshore and Natural Gas segments) produced 115,900 Boe/d compared with 90,200 Boe/d in the prior-year quarter. Results were boosted by higher output levels from East Coast Canada and Oda, which began production at the start of 2019. The same was but partially offset by natural declines in the United Kingdom.

### Downstream

Operating earnings from the downstream unit decreased to C\$558 million from the year-ago figure of C\$762 million due to soft refining margins. Suncor Energy recorded better refined product sales in the quarter under consideration, which rose to 534,600 Bbl/d from the prior-year level of 530,600 Bbl/d on strong refinery utilization levels. Refining margin was C\$34.8 a barrel compared with C\$41.5 a year ago.

Crude throughput came in at 447,500 Bbl/d in the fourth quarter compared with 467,900 Bbl/d in the year-ago period. Also, refinery utilization was 97%.

### Expenses

Total expenses in the reported quarter escalated to C\$12,667 million from C\$9,057 million in the year-earlier period. This elevation in total expenses is mainly induced by higher refinery maintenance, transportation and business development costs.

### Financials

Importantly, cash flow from operating activities summed C\$2,304 million in the fourth quarter, down 24.2% from the prior-year figure of C\$3,040 million. The company incurred capital expenditure worth C\$1,738 million in the quarter under discussion.

As of Dec 31, 2019, Suncor Energy had cash and cash equivalents of C\$1,960 million and total long-term debt of C\$12,884 million. Its total debt-to-capitalization ratio was 23.45%.

Suncor Energy returned C\$644 million to its shareholders through dividends and repurchased C\$11.1 million of outstanding shares in the fourth quarter.

### Dividend Hike

In a shareholder-friendly measure, Suncor Energy recently announced an 11% dividend rise. This strategic move is indicative of the company's commitment to create value for its shareholders and its high confidence level in business growth.

The firm raised its quarterly dividend to 46.5 Canadian cents per share on its stock. The amount will be paid out on Mar 25, 2020 to its shareholders of record as of Mar 4. This profit distribution marks the company's 18th consecutive annualized dividend hike.

Also, Suncor Energy's board approved a new stock repurchase authorization program of up to additional C\$2 billion, effective Mar 1.

### Guidance

Suncor Energy expects its overall net production for 2020 in the range of 800,000-840,000 barrels of oil equivalent per day (Boe/d).

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Moreover, the company anticipates its 2020 refiner throughputs in the band of 440,000-460,000 barrels per day (BPD). Output from oil sands operations is estimated within 420,000-455,000 barrels per day. Suncor Energy's production from its stake in Fort Hills is projected in the range of 85,000-95,000 BPD while the same from Syncrude is estimated at 170,000-185,000 BPD.

For the ongoing year, this Alberta-based integrated player's total capex is envisioned in the bracket of C\$5.4-C\$6 billion. It estimates to disburse in the range of C\$4.55-C\$4.95 billion for the upstream segment. Moreover, the company has plans to spend C\$700-C\$800 million on its downstream operations in 2020 while the corporate spending is assumed within C\$150-C\$250 million.

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## Valuation

Suncor shares are down 10% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oil-Energy sector are down 6.4% and 15.3%, respectively, over the past year.

The S&P 500 index is up 21.9% in the past year.

The stock is currently trading at 4.75X trailing 12-month EV/EBITDA, which compares to 8.49X for the Zacks sub-industry, 4.71X for the Zacks sector and 11.36X for the S&P 500 index.

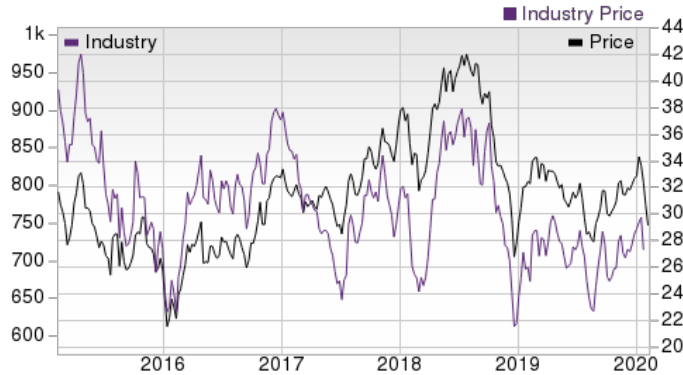
Over the past five years, the stock has traded as high as 14.3X and as low as 3.67X, with a 5-year median of 7.57X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$34 price target reflects 1.60X F12M sales.

The table below shows summary valuation data for SU

Valuation Multiples - SU					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	4.75	8.49	4.71	11.36
	5-Year High	14.3	13.53	10.27	12.85
	5-Year Low	3.67	3.67	4.58	8.47
	5-Year Median	7.57	8.56	6.54	10.7
P/S F12M	Current	1.37	1.14	0.81	3.53
	5-Year High	2.67	1.92	1.45	3.53
	5-Year Low	1.3	1.07	0.67	2.54
	5-Year Median	1.87	1.54	0.99	3
P/B TTM	Current	0.04	1.1	1.12	4.29
	5-Year High	1.95	1.57	1.6	4.42
	5-Year Low	0.04	0.88	1.03	2.85
	5-Year Median	1.46	1.26	1.32	3.62

As of 02/07/2020

## Industry Analysis Zacks Industry Rank: Top 42% (106 out of 254)



## Top Peers

Canadian Natural Resources Limited (CNQ)	Outperform
Imperial Oil Limited (IMO)	Outperform
Baytex Energy Corp (BTE)	Neutral
ConocoPhillips (COP)	Neutral
Crescent Point Energy Corporation (CPG)	Neutral
Cenovus Energy Inc (CVE)	Neutral
EOG Resources, Inc. (EOG)	Neutral
Occidental Petroleum Corporation (OXY)	Neutral

Industry Comparison Industry: Oil And Gas - Integrated - Canadian				Industry Peers		
	SU Outperform	X Industry	S&P 500	CNQ Outperform	CVE Neutral	IMO Outperform
<b>VGM Score</b>	<b>A</b>	-	-	<b>C</b>	<b>A</b>	<b>B</b>
Market Cap	44.58 B	17.47 B	24.00 B	34.39 B	10.97 B	17.47 B
# of Analysts	6	3	13	5	4	5
Dividend Yield	4.35%	2.82%	1.78%	3.90%	2.11%	2.82%
<b>Value Score</b>	<b>B</b>	-	-	<b>B</b>	<b>C</b>	<b>A</b>
Cash/Price	0.03	0.03	0.04	0.02	0.03	0.07
EV/EBITDA	6.64	5.68	14.07	6.58	-18.61	5.68
PEG Ratio	1.90	1.92	2.04	1.98	1.76	NA
Price/Book (P/B)	1.31	0.94	3.28	1.30	0.75	0.94
Price/Cash Flow (P/CF)	6.00	6.10	13.58	5.27	NA	6.20
P/E (F1)	13.29	15.27	18.86	13.86	27.91	15.27
Price/Sales (P/S)	1.52	0.70	2.65	2.09	0.70	0.68
Earnings Yield	7.53%	6.56%	5.30%	7.21%	3.58%	6.56%
Debt/Equity	0.35	0.35	0.71	0.53	0.42	0.20
Cash Flow (\$/share)	4.85	3.79	6.89	5.50	-0.39	3.79
<b>Growth Score</b>	<b>A</b>	-	-	<b>D</b>	<b>A</b>	<b>B</b>
Hist. EPS Growth (3-5 yrs)	11.45%	13.50%	10.80%	9.44%	NA	15.55%
Proj. EPS Growth (F1/F0)	3.30%	-7.91%	7.23%	-19.10%	-34.16%	-7.35%
Curr. Cash Flow Growth	12.57%	12.57%	9.51%	32.80%	-131.28%	19.50%
Hist. Cash Flow Growth (3-5 yrs)	-3.04%	-3.43%	8.55%	0.07%	NA	-3.82%
Current Ratio	0.96	1.12	1.20	0.60	1.12	1.45
Debt/Capital	25.85%	25.85%	42.90%	34.65%	29.61%	16.59%
Net Margin	7.35%	6.43%	11.76%	18.37%	3.41%	6.43%
Return on Equity	9.70%	6.77%	16.98%	7.87%	-5.76%	6.77%
Sales/Assets	0.42	0.58	0.54	0.29	0.58	0.81
Proj. Sales Growth (F1/F0)	12.85%	9.43%	4.15%	5.29%	-4.53%	9.43%
<b>Momentum Score</b>	<b>C</b>	-	-	<b>D</b>	<b>B</b>	<b>F</b>
Daily Price Chg	-1.99%	-1.99%	-0.64%	-0.62%	-2.40%	-1.59%
1 Week Price Chg	-5.41%	-5.41%	-2.60%	-7.07%	-0.46%	-7.32%
4 Week Price Chg	-14.56%	-12.58%	0.72%	-9.81%	-10.61%	-12.58%
12 Week Price Chg	-9.29%	-5.96%	4.69%	4.55%	-1.22%	-5.96%
52 Week Price Chg	-10.76%	-10.76%	16.01%	11.68%	17.65%	-13.35%
20 Day Average Volume	3,495,867	3,495,867	1,961,054	2,656,867	3,931,255	338,404
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-3.95%
(F1) EPS Est 4 week change	4.86%	5.14%	-0.00%	0.96%	13.61%	5.14%
(F1) EPS Est 12 week change	4.07%	4.07%	-0.16%	23.29%	9.87%	0.50%
(Q1) EPS Est Mthly Chg	6.67%	6.67%	0.00%	76.32%	225.00%	-0.93%



## Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	<b>B</b>
Growth Score	<b>A</b>
Momentum Score	<b>C</b>
VGM Score	<b>A</b>

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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