

Suncor Energy Inc. (SU)

\$34.28 (As of 01/10/20)

Price Target (6-12 Months): **\$42.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 01/09/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: C

Summary

Suncor Energy's share price trajectory has closely mirrored the performance of the Zacks Oil & Gas Canadian Integrated industry over the past one-year period. The Canadian integrated operator 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 Fort Hills and Syncrude operations are expected to drive production volumes and cash flows. Balance-sheet strength and investor-friendly moves also bode well. In particular, the company's healthy dividend 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.

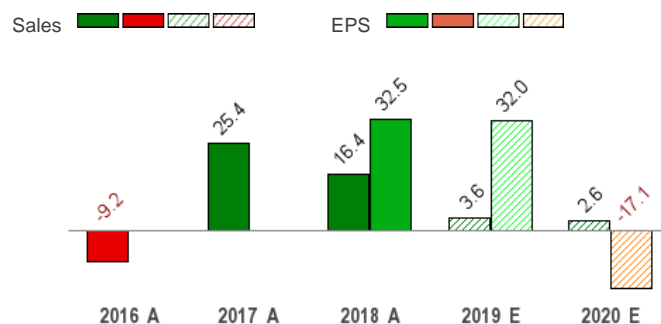
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$34.87 - \$27.28
20 Day Average Volume (sh)	2,881,727
Market Cap	\$52.7 B
YTD Price Change	4.5%
Beta	1.10
Dividend / Div Yld	\$1.26 / 3.7%
Industry	Oil and Gas - Integrated - Canadian
Zacks Industry Rank	Top 5% (13 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.9%
Last Sales Surprise	-6.5%
EPS F1 Est- 4 week change	3.3%
Expected Report Date	02/05/2020
Earnings ESP	20.0%
P/E TTM	17.1
P/E F1	15.7
PEG F1	2.2
P/S TTM	1.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	8,784 E	8,819 E	8,867 E	8,804 E	31,386 E
2019	7,068 A	7,549 A	7,500 A	8,146 E	30,577 E
2018	6,924 A	8,082 A	8,312 A	6,769 A	29,502 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.53 E	\$0.55 E	\$0.51 E	\$0.45 E	\$2.19 E
2019	\$0.58 A	\$0.60 A	\$0.55 A	\$0.53 E	\$2.64 E
2018	\$0.48 A	\$0.57 A	\$0.73 A	\$0.27 A	\$2.00 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 01/10/2020. The reports text is as of 01/13/2020.

Overview

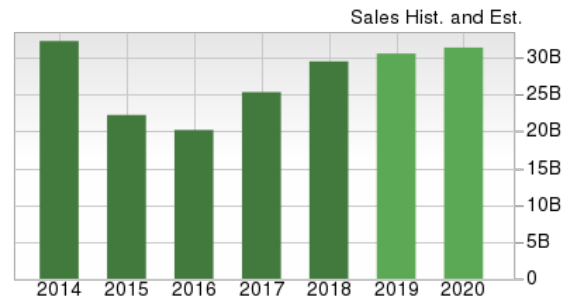
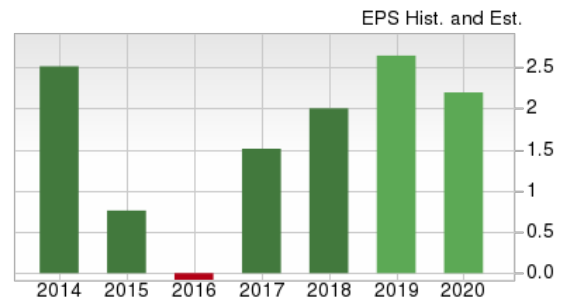
Founded in 1917, Alberta-based Suncor Energy, Inc. is Canada's premier integrated energy company. The company's operations include oil sands development and upgrading, conventional and offshore crude oil and gas production, petroleum refining, and product marketing. Suncor is one of the largest owners 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 33% of the company's 2018 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 2018 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 60% of the company's 2018 operating revenues.



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.
- ▲ The company'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 last year.
- ▲ Suncor's modest leverage ratio of around 22.5% provides it financial flexibility to tap growth opportunities. The company's investor-friendly moves also boost investors' sentiments. Suncor has hiked its dividend for 17 consecutive years now. Being confident of its strong cash-flow generation ability, the company also has a \$2-billion buyback program underway.
- ▲ 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 Fort Hills and Hebron projects are expected to drive future volumes and cash flows.

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 Q3 Earnings Beat, Revenues Miss Mark

Suncor Energy announced third-quarter 2019 results wherein its earnings surpassed estimates. The company's operating earnings per share of 55 cents edged past the Zacks Consensus Estimate of 54 cents on the back of higher output contribution from Fort Hills and Syncrude operations.

However, the bottom line declined 24.6% from the prior-year figure of 73 cents per share. The weaker year-over-year results can be attributed to unfavourable business environment causing low crude oil price realization along with increased operating and transport expenses.

Moreover, quarterly operating revenues of \$7,500 million lagged the Zacks Consensus Estimate of \$8,021 million. The top line also decreased 9.767% from \$8,312 million in the year-ago quarter.

Total expenses in the reported quarter increased to C\$8,424 million from C\$8,398 million in the year-ago period. The rise in total expenses is mainly attributed to higher refinery maintenance, financing and business development costs.

Quarter Ending **09/2019**

Report Date	Oct 30, 2019
Sales Surprise	-6.50%
EPS Surprise	1.85%
Quarterly EPS	0.55
Annual EPS (TTM)	2.00

Upstream

Total upstream production in the reported quarter was 762,300 barrels of oil equivalent per day (Boe/d), up 2.5% from the prior-year level of 743,800 Boe/d. This rise in output was backed by robust operations in Fort Hills, Hebron and Syncrude projects, partly offset by mandatory production cuts implemented by the Alberta government. However, this upstream unit recorded operating earnings of C\$676 million vis-a-vis C\$984 million in the prior-year quarter, thanks to production curtailments.

Notably, Fort Hills production came in at 85,500 barrels per day (Bbl/d) in the quarter, higher than 69,400 Bbl/d recorded in the year-ago period owing to ramped-up operations.

Production from Syncrude operations increased to 162,300 Bbl/d from 106,200 Bbl/d in the year-ago quarter. Notably, the planned maintenance in the reported quarter had lesser impact on production than the unplanned maintenance in the year-ago quarter. In the quarter under review, upgrader reliability at Syncrude was 80%, higher than the prior-year's 52%.

Oil Sands operations volume was 422,200 Bbl/d compared with 476,100 Bbl/d in the year-earlier quarter. Upgrader utilization declined to 91% from 95% in the comparable quarter last year. Operating costs per barrel increased to C\$26.60 in the quarter under review from C\$22 in the corresponding period of 2018.

Suncor Energy's Exploration and Production segment (consisting of International, Offshore and Natural Gas segments) produced 92,300 Boe/d compared with 92,100 Boe/d in the prior-year quarter. Results were impacted by higher output levels from Hebron and Oda, which began production earlier this year. The same was but partially offset by an unplanned outage at Hibernia, which was resolved by September end.

Downstream

Operating earnings from the downstream unit decreased to C\$668 million from the year-ago figure of C\$932 million due to lower refining margins. Suncor Energy recorded better refined product sales in the quarter under review, which increased to 572,000 Bbl/d from the prior-year level of 565,500 Bbl/d on higher refinery throughput and utilization levels. Refining margin was C\$28.35 a barrel compared with C\$34.45 a year ago.

Crude throughput came in at 463,700 Bbl/d in the third quarter compared with 457,200 Bbl/d in the year-ago period. Also, refinery utilization rose to 100% from 99% a year earlier.

Financials

Importantly, cash flow from operating activities summed C\$2,675 million in the third quarter, down 14.8% from the prior-year figure of C\$3,139 million. The company incurred capital expenditure of C\$1,487 million in the quarter under review.

As of Sep 30, Suncor Energy had cash and cash equivalents of C\$2,089 million and total long-term debt of C\$13,098 million. Its total debt-to-capitalization ratio was approximately 22.5%.

Suncor Energy returned C\$650 million to its shareholders through dividends and bought back C\$19.2 million of outstanding shares in third-quarter 2019.

Guidance

Suncor tapered its 2019 total production guidance from 780,000-820,000 Boe/d to 780,000-790,000 Boe/d. Production from oil sands is estimated within 410,000-425,000 bbls/d. Moreover, production from E&P production is expected in the 105,000-110,000 bbls/d bracket. Fort Hills' output is expected within 85,000-90,000 bbls/d. Oil Sands operations cash operating costs per barrel are projected between \$27 and \$28 on account of mandatory production curtailment.

Valuation

Suncor shares are up 12.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oil-Energy sector are up 13.2% and down 4.7%, respectively, over the past year.

The S&P 500 index is up 25.7% in the past year.

The stock is currently trading at 8.24X trailing 12-month EV/EBITDA, which compares to 9.6X for the Zacks sub-industry, 5.06X for the Zacks sector and 12.12X 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 7.56X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$42 price target reflects 2.06X 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	8.24	9.6	5.06	12.12
	5-Year High	14.3	13.53	10.22	12.86
	5-Year Low	3.67	3.67	4.56	8.48
	5-Year Median	7.56	8.52	6.49	10.67
P/S F12M	Current	1.68	1.37	0.89	3.5
	5-Year High	2.67	1.92	1.44	3.5
	5-Year Low	1.14	1.07	0.67	2.54
	5-Year Median	1.87	1.54	0.99	3
P/B TTM	Current	1.54	1.29	1.23	4.46
	5-Year High	1.95	1.57	1.59	4.47
	5-Year Low	0.93	0.88	1.02	2.85
	5-Year Median	1.47	1.26	1.31	3.61

As of 01/10/2020

Industry Analysis Zacks Industry Rank: Top 5% (13 out of 254)



Top Peers

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

Industry Comparison Industry: Oil And Gas - Integrated - Canadian				Industry Peers		
	SU Outperform	X Industry	S&P 500	CVE Neutral	ECA Neutral	IMO Neutral
VGM Score	B	-	-	A	A	A
Market Cap	52.69 B	20.04 B	24.03 B	12.14 B	5.65 B	20.04 B
# of Analysts	3	4	13	4	5	5
Dividend Yield	3.69%	2.46%	1.78%	1.91%	1.72%	2.46%
Value Score	B	-	-	C	A	A
Cash/Price	0.03	0.03	0.04	0.03	0.02	0.06
EV/EBITDA	7.62	6.40	14.04	-19.90	4.50	6.40
PEG Ratio	2.24	2.15	2.02	1.84	0.77	NA
Price/Book (P/B)	1.54	1.07	3.32	0.83	0.57	1.07
Price/Cash Flow (P/CF)	7.07	7.08	13.52	NA	1.98	7.09
P/E (F1)	15.65	16.87	18.82	31.70	7.71	16.87
Price/Sales (P/S)	1.82	0.79	2.63	0.78	0.75	0.79
Earnings Yield	6.39%	5.92%	5.31%	3.14%	12.87%	5.92%
Debt/Equity	0.35	0.35	0.72	0.42	0.71	0.20
Cash Flow (\$/share)	4.85	3.79	6.94	-0.39	2.20	3.79
Growth Score	C	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	11.45%	8.35%	10.56%	NA	44.97%	5.25%
Proj. EPS Growth (F1/F0)	-13.73%	-14.04%	7.49%	-34.52%	-11.83%	-14.87%
Curr. Cash Flow Growth	12.57%	12.57%	14.83%	-131.28%	66.85%	19.50%
Hist. Cash Flow Growth (3-5 yrs)	-3.04%	-3.43%	9.00%	NA	-0.04%	-3.82%
Current Ratio	0.96	1.12	1.23	1.12	0.82	1.45
Debt/Capital	25.85%	25.85%	42.99%	29.61%	41.45%	16.59%
Net Margin	12.87%	8.20%	11.08%	3.41%	16.84%	8.20%
Return on Equity	9.24%	9.10%	17.16%	-5.76%	10.12%	9.10%
Sales/Assets	0.41	0.58	0.55	0.58	0.38	0.80
Proj. Sales Growth (F1/F0)	2.65%	2.65%	4.20%	-6.86%	1.62%	8.57%
Momentum Score	C	-	-	B	A	B
Daily Price Chg	0.65%	-0.07%	-0.33%	-1.10%	-2.25%	-0.07%
1 Week Price Chg	0.58%	0.87%	-0.30%	1.29%	4.12%	0.87%
4 Week Price Chg	7.29%	5.54%	1.71%	2.70%	3.57%	5.54%
12 Week Price Chg	13.29%	13.29%	6.05%	14.22%	3.08%	8.31%
52 Week Price Chg	11.73%	11.73%	22.39%	20.49%	-34.29%	0.26%
20 Day Average Volume	2,881,727	2,474,008	1,580,816	2,474,008	15,497,538	262,696
(F1) EPS Est 1 week change	2.65%	7.86%	0.00%	13.13%	1.06%	7.86%
(F1) EPS Est 4 week change	3.25%	7.86%	0.00%	39.85%	0.82%	7.86%
(F1) EPS Est 12 week change	-2.52%	-2.52%	-0.50%	-8.93%	-8.20%	-2.33%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	233.33%	0.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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
Growth Score	C
Momentum Score	C
VGM Score	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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