

Suncor Energy Inc. (SU)

\$17.23 (As of 05/18/20)

Price Target (6-12 Months): **\$18.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/21/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: A

Momentum: F

Summary

Alberta-based Suncor Energy, Inc. is Canada's premier integrated energy company. It boasts an impressive supply chain network, owning significant oil sands and conventional production platforms, along with a strong downstream portfolio. Suncor's major projects, including Fort Hills, Syncrude, and Hebron, should support its growth momentum and earnings. Suncor's strong liquidity and modest near-term debt maturities are other positives. However, the oil plunge has left the likes of Suncor facing prices below their costs of production. As a result, the company swung to a net loss in the first quarter from a net profit a year ago. Suncor Energy has also been forced to cut its dividend by 55%. Moreover, the company had to slash its capex, translating into lower future production. Hence, the stock warrants a cautious stance.

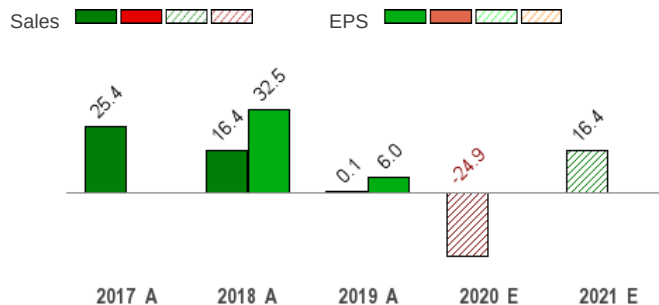
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$34.56 - \$9.61
20 Day Average Volume (sh)	7,785,863
Market Cap	\$26.3 B
YTD Price Change	-47.5%
Beta	1.45
Dividend / Div Yld	\$0.60 / 8.1%
Industry	Oil and Gas - Integrated - Canadian
Zacks Industry Rank	Bottom 30% (179 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	21.1%
Last Sales Surprise	-31.9%
EPS F1 Est- 4 week change	-52.2%
Expected Report Date	07/22/2020
Earnings ESP	13.9%
P/E TTM	12.4
P/E F1	NA
PEG F1	NA
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	6,586 E	6,729 E	6,842 E	6,875 E	25,805 E
2020	5,783 A	4,885 E	5,368 E	6,039 E	22,172 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	-\$0.15 E	-\$0.06 E	-\$0.02 E	-\$0.05 E	\$0.06 E
2020	-\$0.15 A	-\$0.60 E	-\$0.35 E	-\$0.26 E	-\$1.24 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 05/18/2020. The reports text is as of 05/19/2020.

Overview

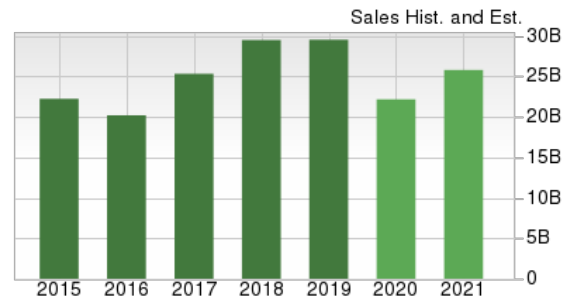
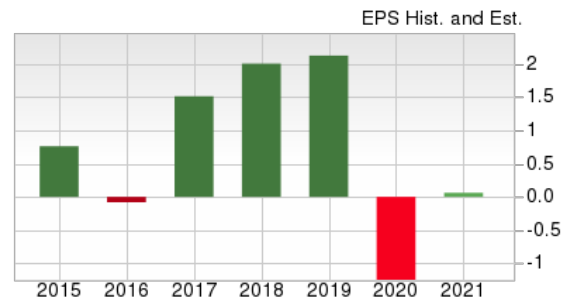
Founded in 1917, Alberta-based Suncor Energy, Inc. is Canada's premier integrated energy company. The company's operations include oil sands development and upgrading, conventional and offshore crude oil and gas production, petroleum refining, and product marketing. Suncor is one of the largest owners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



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 Energy has strong liquidity to manage the downturn. The company has no debt maturities this year, a mere \$1.8 billion during 2021-2022 and sits on \$9.6 billion in total liquidity. Further, Suncor Energy has cash and cash equivalents in excess of C\$2 billion. Suncor's robust liquidity position will allow it to sustain its dividend even if oil prices stay lower for longer.

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

Reasons To Sell:

- ▼ Oil prices recently fell to its lowest in almost two decades as a supply glut combined with continued panic over the spreading coronavirus sent the commodity crashing. In conjunction with the crude collapse, Suncor Energy stock has been sold off together with a host of other energy sector names. Worryingly, the oil plunge has left the likes of Suncor facing prices below their costs of production. Consequently, the company swung to a net loss during the first quarter and was forced to slash its dividend by more than half.
- ▼ Further adding to the woes is the status of Canadian oil market, which is in complete disarray. Heavy Canadian crude, which usually trades at a discount to U.S. West Texas Intermediate oil, seems sinking after the country's oil-sands producers were required to suspend maintenance activity, thereby clogging the market with potential surplus supply. The price of Heavy Canadian crude tumbled to a record low of below \$10 a barrel recently, well below the struggling U.S. benchmark.
- ▼ Suncor Energy trimmed its 2020 capital spending guidance by about a third from the prior expectation and now anticipates it in the range of C\$3.6-C\$4 billion after reckoning the ongoing decline in commodity prices. While the revised budget will help Suncor Energy ride out the tough market conditions and sustain its operations, it will also disrupt its current production scale. This Alberta-based company anticipates 2020 production in the band of 740,000- 780,000 barrels of oil equivalent per day (boe/d), indicative of a decline from the previous guided range of 800,000-840,000 boe/d.

Pipeline construction in Canada has failed to keep pace with the rising domestic oil, forcing producers like Suncor to sell their products at a discounted rate.

Last Earnings Report

Suncor Reports Narrower-Than-Expected Q1 Loss, Cuts Dividend

Suncor Energy reported loss in first-quarter 2020 results. The company's operating loss per share of 15 cents was narrower than the Zacks Consensus Estimate of a loss of 19 cents, attributable to higher contribution from Fort Hills operation.

However, the year-ago bottom line was a profit of 58 cents per share. This downside in the year-over-year performance is due to lower commodity prices and elevated costs and expenses.

Quarterly operating revenues of \$5,783 million fell short of the Zacks Consensus Estimate of \$8,492 million. Moreover, the top line decreased 18.18% from \$7,068 million in the year-ago quarter.

Quarter Ending **03/2020**

Report Date	May 05, 2020
Sales Surprise	-31.90%
EPS Surprise	21.05%
Quarterly EPS	-0.15
Annual EPS (TTM)	1.39

Upstream

Total upstream production in the reported quarter was 739,800 barrels of oil equivalent per day (Boe/d), down 3.2% from the prior-year level of 764,300 Boe/d. This fall in output was due to a drop in the Oil Sands production. Moreover, this upstream unit recorded operating loss of C\$5 million against earnings of C\$492 million in the prior-year quarter, thanks to lower price realizations and mandatory production curtailments.

Notably, Fort Hills production came in at 80,700 barrels per day (BPD) in the quarter, higher than 78,400 BPD registered in the year-ago period.

Output from Syncrude operations scaled down to 171,800 Bbl/d from 182,200 Bbl/d a year earlier due to unplanned maintenance.

Oil Sands operations volume was 377,600 Bbl/d compared with 396,600 Bbl/d in the year-earlier quarter. Operating costs per barrel dipped to C\$29.45 in the quarter under review from C\$29.95 in the corresponding period of 2019. However, upgrader utilization declined to 93% from 95% in the comparable quarter of last year.

Suncor Energy's Exploration and Production segment (consisting of International, Offshore and Natural Gas segments) produced 109,700 Boe/d compared with 107,100 Boe/d in the prior-year quarter. Results were boosted by higher output levels from Hebron and Oda, which came online at the start of 2019. The same was but partially offset by lower output at Terra Nova and natural declines in the United Kingdom.

Downstream

Operating earnings from the downstream unit plunged to C\$165 million from the year-ago figure of C\$1,009 million due to FIFO losses associated with the significant decrease in commodity prices. Suncor Energy recorded soft refined product sales in the quarter under consideration, which fell to 531,500 Bbl/d from the prior-year level of 542,800 Bbl/d due to lower refinery utilization levels.

Crude throughput came in at 439,500 Bbl/d in the first quarter compared with 444,900 Bbl/d in the year-ago period. Also, refinery utilization was 95%.

Expenses

Total expenses in the reported quarter escalated to C\$12.1 billion from C\$7.39 billion in the year-earlier period. This steep rise in total expenses is mainly induced by depreciation, impairment and business development costs.

Financials

Importantly, cash flow from operating activities summed C\$1.38 billion in the first quarter, down 10.6% from the prior-year figure of C\$1.55 billion. The company incurred capital expenditure worth C\$1.282 billion in the quarter under discussion.

As of Mar 31, 2019, Suncor Energy had cash and cash equivalents of C\$2.226 billion and total long-term debt of C\$13.76 billion. Its total debt to total capital was of 26.6%.

Suncor Energy repurchased C\$307 million of outstanding shares in the first quarter. However, given the current economic scenario, the company halted further share buybacks.

Dividend

Compelled by the historic oil market crash and the coronavirus-induced bleak demand for the fuel, the company slashed its quarterly dividend and suspended its share repurchase program to conserve cash. The firm reduced its quarterly dividend by 55% to 21 Canadian cents per share, payable Jun 25, 2020 to its shareholders of record as of Jun 4.

Guidance

Suncor Energy slashed its 2020 refiner throughput guidance to the band of 390,000–420,000 000 barrels per day (BPD) from the past outlook of 440,000-460,000 BPD. Refined product sale is now estimated within 500,000-530,000 BPD, lower than the previous outlook of 530,000-560,000 BPD.

The unexpected descent in oil prices and a slump in global demand due to the novel coronavirus outbreak are taking a toll on the oil and energy players. The companies have been forced to delay expansion plans and cut capital expenditures to sustain liquidity. So in March, Suncor Energy trimmed its 2020 capital spending view by nearly 26% to the C\$3.9-C\$4.5 billion range after reckoning the ongoing decline in commodity prices.

In an attempt to maintain a strong balance sheet position under this crippling market condition, the Alberta-based integrated player further

lowered its total capex for the ongoing year to the bracket of C\$3.6-C\$4 billion.

Recent News

Suncor Prices \$1B Notes Offering

On **May 11**, Suncor Energy has priced an offering to sell \$1 billion of senior notes, consisting of \$450 million of senior notes due 2023 at a coupon of 2.800% and \$550 million of senior notes due 2025 at a coupon of 3.100%. The net proceeds from the offering will be used to repay short term debt and for general corporate purposes.

Valuation

Suncor shares are down 46.8% in the year-to-date period and 44.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oil-Energy sector are down 48.6% and 36.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 45.1% and 37.3%, respectively.

The S&P 500 index is down 7.5% in the year-to-date but up 6% in the past year, respectively.

The stock is currently trading at 3.08X trailing 12-month EV/EBITDA, which compares to 3.4X for the Zacks sub-industry, 3.82X for the Zacks sector and 10.91X for the S&P 500 index.

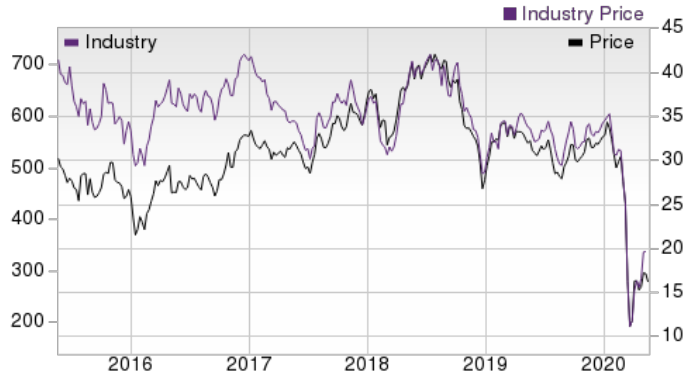
Over the past five years, the stock has traded as high as 14.3X and as low as 2.26X, with a 5-year median of 7.55X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$18 price target reflects 1.17X F12M sales.

The table below shows summary valuation data for SU

Valuation Multiples - SU					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	3.08	3.4	3.82	10.91
	5-Year High	14.3	13.53	10.43	12.86
	5-Year Low	2.26	2.31	3.02	8.26
	5-Year Median	7.55	8.47	6.49	10.78
P/S F12M	Current	1.12	0.99	0.72	3.34
	5-Year High	2.67	1.92	1.48	3.44
	5-Year Low	0.5	0.64	0.58	2.53
	5-Year Median	1.87	1.49	0.99	3.01
P/B TTM	Current	0.93	0.74	0.82	4.03
	5-Year High	1.95	1.57	1.56	4.56
	5-Year Low	0.51	0.38	0.51	2.83
	5-Year Median	1.47	1.25	1.32	3.65

As of 05/18/2020

Industry Analysis Zacks Industry Rank: Bottom 30% (179 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Baytex Energy Corp (BTE)	Neutral	3
Canadian Natural Resources Limited (CNQ)	Neutral	3
ConocoPhillips (COP)	Neutral	3
Crescent Point Energy Corporation (CPG)	Neutral	2
Cenovus Energy Inc (CVE)	Neutral	4
EOG Resources, Inc. (EOG)	Neutral	5
Imperial Oil Limited (IMO)	Neutral	3
Occidental Petroleum Corporation (OXY)	Neutral	3

Industry Comparison Industry: Oil And Gas - Integrated - Canadian				Industry Peers		
	SU	X Industry	S&P 500	CNQ	CVE	IMO
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	C	-	-	D	F	D
Market Cap	26.28 B	8.40 B	20.09 B	22.15 B	5.46 B	11.34 B
# of Analysts	6	3	14	6	6	5
Dividend Yield	8.07%	4.23%	2.1%	6.78%	4.21%	4.25%
Value Score	C	-	-	C	F	B
Cash/Price	0.07	0.05	0.07	0.05	0.03	0.10
EV/EBITDA	3.56	4.44	12.13	4.21	3.77	5.10
PEG Ratio	NA	NA	2.72	NA	NA	NA
Price/Book (P/B)	0.93	0.79	2.75	0.89	0.41	0.65
Price/Cash Flow (P/CF)	2.34	2.68	10.86	3.23	2.68	4.66
P/E (F1)	NA	NA	20.10	NA	NA	NA
Price/Sales (P/S)	0.94	0.44	2.05	1.25	0.37	0.46
Earnings Yield	-7.20%	-7.20%	4.77%	-6.35%	-34.46%	-6.21%
Debt/Equity	0.43	0.46	0.76	0.60	0.49	0.21
Cash Flow (\$/share)	7.36	3.32	7.01	5.80	1.66	3.32
Growth Score	A	-	-	F	C	D
Hist. EPS Growth (3-5 yrs)	23.38%	24.23%	10.87%	35.18%	NA	25.09%
Proj. EPS Growth (F1/F0)	-158.65%	-163.85%	-10.31%	-149.65%	-646.43%	-157.95%
Curr. Cash Flow Growth	46.54%	-0.71%	5.51%	4.07%	-523.22%	-17.04%
Hist. Cash Flow Growth (3-5 yrs)	4.04%	0.09%	8.55%	-0.87%	0.09%	-9.11%
Current Ratio	0.81	0.98	1.28	0.66	0.71	1.35
Debt/Capital	30.14%	31.53%	44.46%	37.41%	32.92%	17.41%
Net Margin	-5.60%	1.95%	10.59%	13.51%	1.48%	5.23%
Return on Equity	6.68%	6.28%	16.29%	6.70%	-4.25%	5.87%
Sales/Assets	0.41	0.68	0.55	0.30	0.57	0.79
Proj. Sales Growth (F1/F0)	-24.56%	-30.10%	-2.49%	-44.10%	-58.84%	-35.64%
Momentum Score	F	-	-	D	F	F
Daily Price Chg	6.69%	7.40%	5.21%	10.17%	19.68%	8.12%
1 Week Price Chg	-5.56%	-4.72%	-4.56%	3.66%	-3.89%	-6.36%
4 Week Price Chg	16.81%	27.48%	4.12%	46.52%	68.82%	27.48%
12 Week Price Chg	-41.36%	-41.36%	-16.39%	-34.43%	-47.70%	-34.17%
52 Week Price Chg	-46.69%	-46.69%	-5.84%	-30.85%	-48.13%	-45.17%
20 Day Average Volume	7,785,863	4,407,360	2,651,378	4,500,669	9,426,077	1,028,857
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-52.25%	-52.25%	-4.48%	-19.37%	-59.10%	-26.58%
(F1) EPS Est 12 week change	-158.42%	-162.55%	-16.39%	-157.02%	-822.84%	-162.55%
(Q1) EPS Est Mthly Chg	23.08%	2.63%	-9.90%	3.48%	0.78%	2.63%

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	C
Growth Score	A
Momentum Score	F
VGM Score	C

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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