

Suncor Energy Inc. (SU)

\$11.51 (As of 10/21/20)

Price Target (6-12 Months): **\$12.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/21/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: B

Growth: F

Momentum: A

Summary

Alberta-based Suncor Energy, Inc. is Canada's premier integrated energy company. The firm 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 or near their costs of production. As a result, the company swung to a net loss in the first two quarters of 2020. Suncor Energy has also been forced to cut its dividend by more than half. Moreover, the company had to slash its capex, translating into lower future production. Hence, the stock warrants a cautious stance.

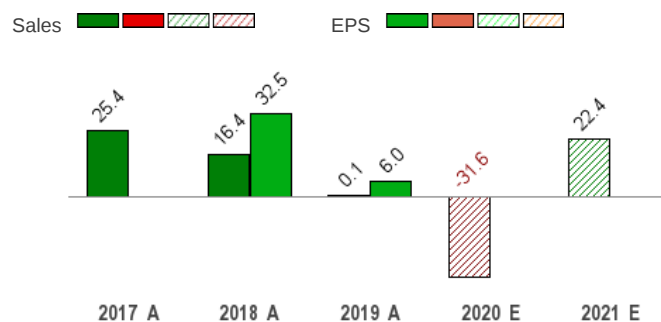
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$34.56 - \$9.61
20-Day Average Volume (Shares)	8,838,551
Market Cap	\$17.6 B
Year-To-Date Price Change	-64.9%
Beta	1.47
Dividend / Dividend Yield	\$0.64 / 5.6%
Industry	Oil and Gas - Integrated - Canadian
Zacks Industry Rank	Bottom 12% (224 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-61.4%
Last Sales Surprise	-24.7%
EPS F1 Estimate 4-Week Change	4.9%
Expected Report Date	10/28/2020
Earnings ESP	56.4%
P/E TTM	143.9
P/E F1	NA
PEG F1	NA
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	6,220 E	6,192 E	6,470 E	7,127 E	24,744 E
2020	5,783 A	3,062 A	5,096 E	5,993 E	20,212 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	\$0.01 E	\$0.06 E	\$0.09 E	\$0.19 E	\$0.29 E
2020	-\$0.15 A	-\$0.71 A	-\$0.09 E	-\$0.10 E	-\$1.07 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 10/21/2020. The reports text is as of 10/22/2020.

Overview

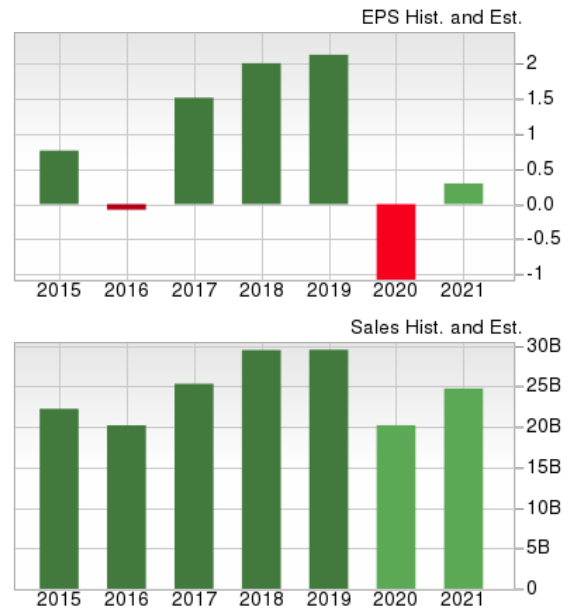
Founded in 1917, Alberta-based Suncor Energy, Inc. is Canada's premier integrated energy company. The company's operations include oil sands development and upgrading, conventional and offshore crude oil and gas production, petroleum refining, and product marketing. Suncor is one of the largest owners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



Source: Zacks Investment Research

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 C\$1.8 billion during 2021-2022 and sits on C\$8.7 billion in total liquidity. Further, Suncor Energy has cash and cash equivalents of nearly 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/close to their costs of production. Consequently, the company swung to a net loss during the first two quarters of 2020 and was forced to slash its dividend by more than half.
- ▼ Further adding to the woes is the status of Canadian oil market. While oil production is surging in Canada, the country's exploration and production sector has remained out of favor, primarily due to the scarcity of pipelines. In short, pipeline construction in Canada has failed to keep pace with rising domestic crude volumes – the heavier sour variety churned out of the oil sands – resulting in infrastructural bottleneck. This has forced producers (like Suncor) to give away their products in the United States – Canada's major market – at a discounted rate. As it is, Canadian heavy crude is inferior to the higher-quality oil extracted from shale formations in the United States and is also more expensive to transport and refine.
- ▼ 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 680,000- 710,000 barrels of oil equivalent per day (Boe/d), indicative of a decline from the previous guided range of 740,000-780,000 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 Wider-Than-Expected Q2 Loss, Maintains View

Suncor Energy reported loss in second-quarter 2020 results. The company's operating loss per share of 71 cents was wider than the Zacks Consensus Estimate of a loss of 44 cents. However, the year-ago bottom line was a profit of 60 cents per share. This downside in the performance is due to lower commodity prices and reduced upstream production.

Quarterly operating revenues of \$3.06 billion fell short of the Zacks Consensus Estimate of \$4.07 billion. Moreover, the top line dropped 59.4% from \$7.55 billion in the year-ago quarter.

Quarter Ending	06/2020
Report Date	Jul 22, 2020
Sales Surprise	-24.71%
EPS Surprise	-61.36%
Quarterly EPS	-0.71
Annual EPS (TTM)	0.08

Upstream

Total upstream production in the reported quarter was 655,500 barrels of oil equivalent per day (Boe/d), down 18.5% from the prior-year level of 803,900 Boe/d. This fall in output was due to a drop in the Oil Sands production. Moreover, this upstream unit recorded an operating loss of C\$51 million against earnings of C\$247 million in the prior-year quarter, thanks to weak price realizations and mandatory production curtailments.

Notably, Fort Hills production came in at 47,300 barrels per day (BPD) in the quarter, higher than 89,300 BPD registered in the year-ago period. Output from Syncrude operations scaled down to 119,500 Bbl/d from 188,700 Bbl/d a year earlier due to unplanned maintenance. Oil Sands operations volume was 396,300 Bbl/d compared with 416,000 Bbl/d in the year-earlier quarter. Operating costs per barrel dipped to C\$25.8 in the quarter under review from C\$27.8 in the corresponding period of 2019. However, upgrader utilization declined to 81% from 88% in the comparable quarter of last year.

Suncor Energy's Exploration and Production segment (consisting of International, Offshore and Natural Gas segments) produced 101,800 Boe/d compared with 111,700 Boe/d in the prior-year quarter. Results were unpleasant due to lower output levels from Terra Nova natural declines in the United Kingdom. The same was partially offset by higher output at Hebron.

Downstream

Operating earnings from the downstream unit plunged to C\$49 million from the year-ago figure of C\$677 million due to FIFO losses associated with the significant slump in commodity prices. Suncor Energy recorded soft refined product sales in the quarter under consideration, which fell to 438,800 Bbl/d from the prior-year level of 508,100 Bbl/d due to compressed refinery utilization levels.

Crude throughput came in at 350,400 Bbl/d in the second quarter compared with 399,100 Bbl/d in the year-ago period. Also, refinery utilization was 76%.

Expenses

Total expenses in the reported quarter plummeted to C\$5.3 billion from C\$7.97 billion in the year-earlier period. This upside is mainly led by purchases of crude oil and product costs as well as operating, selling and general costs.

Financials

Importantly, cash flow from operating activities summed C\$768 million in the second quarter, down from the prior-year figure of C\$3.43 billion. The company incurred capital expenditure worth C\$671 million in the quarter under discussion.

As of Jun 30, 2020, Suncor Energy had cash and cash equivalents worth C\$1.85 billion and total long-term debt of C\$15.97 billion. Its total debt to total capital was 30.4%.

During the quarter under review, the company distributed C\$320 million in dividends.

Guidance

Suncor Energy retains its sales, production and operating cost view, which is indicative of strengthened consumer demand and managed upstream production. Its total production is estimated within 740,000-780,000 BPD.

The unexpected descent in oil prices and deterioration in global demand due to the novel coronavirus outbreak are taking a toll on the oil and energy players. The companies are forced to delay expansion plans and cut capital expenditures to sustain liquidity. Therefore in March, Suncor Energy trimmed its 2020 capital spending outlook 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 during the continued market turbulence, this Alberta-based integrated player further lowered its total capex for the current year to the C\$3.6-C\$4 billion band in the June quarter. The company reiterates its capex guidance on the earnings call.

The company progressed substantially in containing operating costs in the second quarter and remains on track to achieve its \$1-billion operating cost-saving target by 2020 end.

Valuation

Suncor shares are down 64.9% in the year-to-date period and 62.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oil-Energy sector are down 64.8% and 45.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 61.9% and 44.1%, respectively.

The S&P 500 index is up 6.8% in the year-to-date period and 14.8% in the past year.

The stock is currently trading at 2.91X trailing 12-month EV/EBITDA, which compares to 3.28X for the Zacks sub-industry, 3.94X for the Zacks sector and 15.08X 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 \$12 price target reflects 0.77X 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	2.91	3.28	3.94	15.08
	5-Year High	14.3	13.53	10.47	15.68
	5-Year Low	2.26	2.31	3.06	9.55
	5-Year Median	7.55	8.47	6.47	13.11
P/S F12M	Current	0.74	0.61	0.62	4.11
	5-Year High	2.67	1.92	1.47	4.31
	5-Year Low	0.5	0.61	0.6	3.18
	5-Year Median	1.87	1.49	0.99	3.67
P/B TTM	Current	0.67	0.55	0.84	5.98
	5-Year High	1.95	1.57	1.55	6.2
	5-Year Low	0.51	0.38	0.53	3.75
	5-Year Median	1.47	1.25	1.32	4.9

As of 10/21/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 12% (224 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Canadian Natural Resources Limited (CNQ)	Neutral	3
ConocoPhillips (COP)	Neutral	4
Cenovus Energy Inc (CVE)	Neutral	3
EOG Resources, Inc. (EOG)	Neutral	3
Enerplus Corporation (ERF)	Neutral	3
Imperial Oil Limited (IMO)	Neutral	3
Ovintiv Inc. (OVV)	Neutral	3
Occidental Petroleum Corporation (OXY)	Neutral	4

The positions listed should not be deemed a recommendation to buy, hold or sell.

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)	4	-	-	3	3	3
VGM Score	B	-	-	C	C	C
Market Cap	17.55 B	6.85 B	23.50 B	20.01 B	4.41 B	9.29 B
# of Analysts	4	5	14	3	4	2
Dividend Yield	5.59%	5.39%	1.61%	7.69%	2.61%	5.18%
Value Score	B	-	-	B	B	A
Cash/Price	0.07	0.02	0.07	0.02	0.02	0.02
EV/EBITDA	2.86	3.93	13.40	4.09	3.24	4.63
PEG F1	NA	NA	2.75	NA	NA	NA
P/B	0.67	0.62	3.45	0.86	0.35	0.56
P/CF	1.56	2.16	13.17	2.92	2.16	3.82
P/E F1	NA	NA	22.05	NA	NA	NA
P/S TTM	0.74	0.50	2.68	1.30	0.37	0.45
Earnings Yield	-9.30%	-9.30%	4.40%	-2.60%	-29.25%	-7.58%
Debt/Equity	0.51	0.49	0.70	0.65	0.47	0.22
Cash Flow (\$/share)	7.36	3.32	6.93	5.80	1.66	3.32
Growth Score	F	-	-	F	F	F
Historical EPS Growth (3-5 Years)	6.28%	13.14%	10.39%	33.72%	NA	20.00%
Projected EPS Growth (F1/F0)	-150.59%	-163.38%	-2.30%	-118.19%	-474.11%	-157.53%
Current Cash Flow Growth	46.54%	-0.71%	5.49%	4.07%	-523.22%	-17.04%
Historical Cash Flow Growth (3-5 Years)	4.04%	0.09%	8.50%	-0.87%	0.09%	-9.11%
Current Ratio	1.02	1.11	1.37	0.83	1.23	1.20
Debt/Capital	33.72%	32.78%	42.41%	39.58%	31.84%	17.81%
Net Margin	-17.17%	-5.30%	10.35%	0.33%	-10.63%	0.03%
Return on Equity	0.44%	0.74%	14.78%	1.56%	-8.03%	1.03%
Sales/Assets	0.36	0.57	0.51	0.27	0.47	0.67
Projected Sales Growth (F1/F0)	-31.22%	-32.86%	-0.53%	-27.97%	-37.71%	-34.49%
Momentum Score	A	-	-	A	A	D
Daily Price Change	-3.52%	-2.40%	-0.36%	-2.76%	-2.71%	-2.09%
1-Week Price Change	-7.62%	-4.52%	0.02%	-1.57%	-9.88%	-1.43%
4-Week Price Change	-7.70%	-4.23%	6.76%	3.29%	-6.99%	0.24%
12-Week Price Change	-29.95%	-25.10%	4.10%	-8.88%	-25.52%	-24.69%
52-Week Price Change	-62.19%	-59.89%	1.99%	-34.52%	-59.89%	-50.20%
20-Day Average Volume (Shares)	8,838,551	3,117,916	1,882,561	3,145,981	5,697,254	538,578
EPS F1 Estimate 1-Week Change	0.23%	0.24%	0.00%	-3.97%	0.24%	0.52%
EPS F1 Estimate 4-Week Change	4.88%	2.56%	0.14%	25.99%	2.56%	-20.89%
EPS F1 Estimate 12-Week Change	-35.76%	5.21%	3.22%	58.09%	18.32%	5.21%
EPS Q1 Estimate Monthly Change	-39.29%	-39.29%	0.00%	17.45%	-28.57%	-68.18%

Source: Zacks Investment Research

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 maintain a 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	F
Momentum Score	A
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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Returns quoted represent past performance which is no guarantee of future results. Investment returns and principal value will fluctuate so that when shares are redeemed, they may be worth more or less than their original cost. Current performance may be higher or lower than the performance shown.

Investing involves risk; principal loss is possible. There is no guarantee that companies that can issue dividends will declare, continue to pay or increase dividends.

Glossary of Terms and Definitions

52-Week High-Low: The range of the highest and lowest prices at which a stock has traded during the past year. This range is determined based on the stock's daily closing price which may differ from the intra-day high or low. Many investors use it as a technical indicator to determine a stock's current value and future price movement. The idea here is that if price breaks out from the 52-week range, in either direction, the momentum may continue in the same direction.

20-Day Average Volume (Shares): The average number of shares of a company traded in a day over the last 20 days. It is a direct indication of a security's overall liquidity. The higher the average daily trading volume, the easier it is to enter or exit the stock at a desired price with more buyers and sellers being available.

Daily Price Change: This is the percentage difference between a trading day's closing price and the prior trading day's closing price. This item is updated at 9 p.m. EST each day.

1-Week Price Change: This is the percentage change in a stock's closing price over the last 5 trading days. This change reflects the collective buying and selling sentiment over the 1-week period.

A strong weekly price increase for the stock, especially when accompanied by increased volume, is an indication of it gaining momentum.

4-Week Price Change: This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a medium-term price change metric and an indication of the stock gaining momentum.

12-Week Price Change: This is the percentage change of a stock's closing price over the last 60 trading days or past 12 weeks. Similar to 4-week price change, this is a medium-term price change metric. It shows whether a stock has been enjoying strong investor demand, or if it has been in consolidation, or distress over this period.

52-Week Price Change: This is the percentage change in a stock's closing price over the last 260 trading days or past 52 weeks. This long-term price change metric is a good reference point for investors. Some investors seek stocks with the best percentage price change over the last 52 weeks, expecting the momentum to continue.

Market Cap: The number of outstanding common shares of a company times its latest price per share. This figure represents a company's size, which indicates various characteristics, including price stability and risk, in which investors could be interested.

Year-To-Date Price Change: Change in a stock's daily closing price in the period of time beginning the first day of the current calendar year through to the previous trading day.

of Analysts: Number of EPS estimates used in calculating the current-quarter consensus. These estimates come from the brokerage analysts tracking this stock. However, the number of such analysts tracking this stock may not match the number of estimates, as all brokerage analysts may not come up with an estimate or provide it to us.

Beta: A measure of risk commonly used to compare the volatility of a stock to the overall market. The S&P 500 Index is the base for calculating beta and carries a value of 1. A stock with beta below 1 is less risky than the market as a whole. And a stock with beta above 1 is riskier.

Dividend: The portion of earnings a company is expected to distribute to its common shareholders in the next 12 months for each share they own. Dividends are usually paid quarterly. Dividend payments reflect positively on a company and help maintain investors' trust. Investors typically find dividend-paying stocks appealing because the dividend adds to any market price appreciation to result in higher return on investment (ROI). Moreover, a steady or increasing dividend payment provides investors a cushion in a down market.

Dividend Yield: The ratio of a company's annual dividend to its share price. The annual dividend used in the ratio is calculated based on the most recent dividend paid by the company. Dividend yield is an estimate of the dividend-only return from a stock in the next 12 months. Since dividend itself doesn't change frequently, dividend yield usually changes with a stock's price movement. As a result, often an unusually high dividend yield is a result of weak stock price.

S&P 500 Index: The Standard & Poor's 500 (S&P 500) Index is an unmanaged group of securities considered to be representative of the stock market in general. It is a market-capitalization-weighted index of stocks of the 500 largest U.S. companies. Each stock's weight in the index is proportionate to its market value.

Industry: One of the 250+ groups that Zacks classifies all stocks into based on the nature of business. These groups are termed as expanded (aka "X") industries and map to their respective (economic) sectors; Zacks has 16 sectors.

Zacks Industry Rank: The Zacks Industry Rank is determined by calculating the average Zacks Rank for all stocks in the industry and then assigning an ordinal rank to it. For example, an industry with an average Zacks Rank of 1.6 is better than an industry with an average Zacks Rank of 2.3. So, the industry with the better average Zacks Rank would get a better Zacks Industry Rank. If an industry has the best average Zacks Rank, it would be considered the top industry (1 out of 250+), which would place it at the top 1% of Zacks-ranked industries. Studies have shown that roughly half of a stock's price movement can be attributed to the industry group it belongs to. In fact, the top 50% of Zacks-ranked industries outperforms the bottom 50% by a factor of more than 2 to 1.

Last EPS Surprise: The percentage deviation of a company's last reported earnings per share from the Zacks Consensus Estimate. Companies with a positive earnings surprise are more likely to surprise again in the future (or miss again if they recently missed).

Last Sales Surprise: The percentage deviation of a company's last reported sales from the Zacks Consensus Estimate.

Expected Report Date: This is an estimated date of a company's next earnings release. The information originated or gathered by Zacks Investment Research from its information providers or publicly available sources is the basis of this estimate.

Earnings ESP: The Zacks Earnings ESP compares the Most Accurate Estimate to the Zacks Consensus Estimate for the yet-to-be reported quarter. The Most Accurate Estimate is the most recent version of the Zacks Consensus EPS Estimate. The idea here is that analysts revising their estimates closer to an earnings release have the latest information, which could potentially be more accurate than what they and others contributing to the consensus had predicted earlier. Thus, a positive or negative Earnings ESP reading theoretically indicates the likely deviation of the actual earnings from the consensus estimate. However, the model's predictive power is significant for positive ESP readings only. A positive Earnings ESP is a strong predictor of an earnings beat, particularly when combined with a Zacks Rank #1 (Strong Buy), #2 (Buy) or #3 (Hold). Our research shows that stocks with this combination produce a positive surprise nearly 70% of the time.

Periods:

TTM: Trailing 12 months. Using TTM figures is an effective way of analyzing the most-recent financial data in an annualized format that helps neutralize the effects of seasonality and other quarter-to-quarter variation.

F1: Current fiscal year. This period is used to analyze the estimates for the ongoing full fiscal year.

F2: Next fiscal year. This period is used to analyze the estimates for the next full fiscal year.

F12M: Forward 12 months. Using F12M figures is an effective way of analyzing the near-term (the following four unreported quarters) estimates in an annualized manner. Instead of typically representing estimates for the full fiscal year, which may not represent the nitty-gritty of each quarter, F12M figures suggest an all-inclusive annualized estimate for the following four quarters. The annualization helps neutralize the potential effects of seasonality and other quarter-to-quarter variations.

P/E Ratio: The price-to-earnings ratio measures a company's current market price per share relative to its earnings per share (EPS). Usually, the trailing-12-month (TTM) EPS, current-fiscal-year (F1) EPS estimate, or forward-12-month (F12M) EPS estimate is used as the denominator. In essence, this ratio shows what the market is willing to pay today for each dollar of EPS. In other words, this ratio gives a sense of what the relative value of the company is at the already reported level of earnings or at a future level of earnings.

It is one of the most widely-used multiples for determining the value of a company and helps comparing its valuation with that of a competitor, the industry group or a benchmark.

PEG Ratio: The price/earnings to growth ratio is a stock's P/E ratio using current fiscal year (F1) EPS estimate divided by its expected EPS growth rate over the coming 3 to 5 years. This ratio essentially determines a stock's value by factoring in the company's expected earnings growth and is thus believed to provide a more complete picture than just the P/E ratio, particularly for faster-growing companies.

P/S Ratio: The price-to-sales ratio is calculated as a company's current price per share divided by trailing 12 months (TTM) sales or revenues per share. This ratio shows what the market is willing to pay today for each dollar of TTM sales per share. The P/S ratio is at times the only valuation metric when the company has yet to become profitable.

Cash/Price Ratio: The cash-to-price ratio or Cash Yield is calculated as cash and marketable securities per share divided by the company's current share price. Like the earnings yield, which shows the anticipated yield (or return) on a stock from earnings for each dollar invested, the cash yield does the same, with cash being the source of return instead of earnings. For example, a cash/price ratio of 0.08 suggests a return of 8% or 8 cents for every \$1 investment.

EV/EBITDA Ratio: The EV/EBITDA ratio, also known as Enterprise Multiple, is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by EBITDA (earnings before interest, taxes, depreciation and amortization). Usually, trailing-12-month (TTM) or forward-12-month (F12M) EBITDA is used as the denominator.

EV/Sales Ratio: The enterprise value-to-sales ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by annual sales. It is an expansion of the P/S valuation, which uses market value instead of enterprise value. The EV/Sales ratio is perceived as more accurate than P/S, in part, because the market capitalization does not take a company's debt into account when valuing it.

EV/CF Ratio: The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

The EV/CF ratio is perceived as more accurate than the P/CF ratio, in part, because the market price does not take a company's debt into account when valuing it.

EV/FCF Ratio: The enterprise value-to-free cash flow metric compares a company's enterprise value to its trailing-12-month (TTM) free cash flow (FCF). This metric is very similar to the EV/CF ratio, but is considered a more exact measure owing to the fact that it uses free cash flow, which subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding growth activities and payments to shareholders.

P/EBITDA Ratio: The P/EBITDA ratio is calculated as a company's per share market value divided by EBITDA (earnings before interest, taxes, depreciation, and amortization). This metric is very similar to the EV/EBITDA ratio, but is considered a little less exact measure as it uses market price, which does not take a company's debt into account. However, since EBITDA is often considered a proxy for cash income, the metric is used as a measure of what the market is willing to pay today for each dollar of the company's cash profitability in the trailing 12 months (TTM) or forward 12 months (F12M).

P/B Ratio: The price-to-book ratio is calculated as a company's current price per share divided by its book value (total assets – liabilities – preferred stocks) per share. In short, the book value is how much a company is worth. In other words, it reflects the total value of a company's assets that its common shareholders would receive if it were to be liquidated. So, the P/B ratio indicates whether you're paying higher or lower than what would remain if the company went bankrupt immediately. Investors typically use this metric to determine how a company's stock price stacks up to its intrinsic value.

P/TB Ratio: The price-to-tangible-book value ratio is calculated as a the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

P/CF Ratio: The price-to-cash flow ratio measures a company's per share market price relative to its trailing-12-month (TTM) operating cash flow per share. This metric is used to determine whether a company is undervalued or overvalued relative to another stock, industry or sector. And like the P/E ratio, a lower number is typically considered better from the value perspective.

One of the reasons why P/CF ratio is often preferred over P/E ratio is the fact that operating cash flow adds back non-cash expenses such as depreciation and amortization to net income. This feature helps valuing stocks that have positive cash flow but are not profitable because of large noncash charges.

P/FCF Ratio: The price-to-free cash flow ratio is an extension of P/CF ratio, which uses trailing-12-month (TTM) free cash flow per share instead of operating cash flow per share. This metric is considered a more exact measure than P/CF ratio, as free cash flow subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding activities that generate additional revenues.

Earnings Yield: The earnings yield is calculated as current fiscal year (F1) EPS estimate divided by the company's current share price. The ratio, which is the inverse of the P/E ratio, measures the anticipated yield (or return) from earnings for each dollar invested in a stock today.

For example, earnings yield for a stock, which is trading at \$35 and expected to earn \$3 per share in the current fiscal year (F1), would be 0.0857 ($3/35 = 0.0857$) or 8.57%. In other words, for \$1 invested in the stock today, the yield from earnings is anticipated to be 8.57 cents.

Investors most commonly compare the earnings yield of a stock to that of a broad market index (such as the S&P 500) and prevailing interest rates, such as the current 10-year Treasury yield. Since bonds and stocks compete for investors' dollars, stock investors typically demand a higher yield for the extra risk they assume compared to investors of U.S. Treasury-backed securities that offer virtually risk-free returns. This additional return is referred to as the risk premium.

Debt/Equity Ratio: The debt-to-equity ratio is calculated as a company's total liabilities divided by its shareholder equity. This metric is used to gauge a company's financial leverage. In other words, it is a measure of the degree to which a company is financing its operations through debt versus its own funds. The higher the ratio, the higher the risk for shareholders.

However, this ratio is difficult to compare across industry groups where ideal amounts of debt vary. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-equity ratio should be compared with other companies in the same industry.

Cash Flow (\$/share): Cash flow per share is calculated as operating cash flow (after-tax earnings + depreciation + other non-cash charges) divided by common shares outstanding. It is used by many investors as a measure of a company's financial strength. Since cash flow per share takes into consideration a company's ability to generate cash by adding back non-cash expenses, it is regarded by some as a more accurate measure of a company's financial situation than earnings per share, which could be artificially deflated.

Current Ratio: The current ratio or liquidity ratio is a company's current assets divided by its current liabilities. It measures a company's ability to pay short-term obligations. A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average would indicate a higher risk of distress or default. A higher number is usually better. However, a very high current ratio compared to the industry average could be an indication of inefficient use of assets by management.

Debt/Capital Ratio: Debt-to-capital ratio is a company's total debt (interest-bearing debt + both short- and long-term liabilities) divided its total capital (interest-bearing debt + shareholders' equity). It is a measure of a company's financial leverage. All else being equal, the higher the debt-to-capital ratio, the riskier the stock.

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

Net Margin: Net margin is calculated as net income divided by sales. It shows how much of each dollar in sales generated by a company translates into profit. For example, if a company's net margin is 15%, its net income is 15 cents for every \$1 of sales it makes.

A change in margin can reflect either a change in business conditions, or a company's cost controls, or both. If a company's expenses are growing faster than sales, its net margin will decline. However, different net margin rates are considered good for different industries, so it's better to compare net margin rates of companies in the same industry group.

Return on Equity: Return on equity (ROE) is calculated as trailing-12-month net income divided by trailing-12-month average shareholder equity (including reinvested earnings). This metric is considered a measure of how effectively management is using a company's assets to generate profits. For example, if a company's ROE is 10%, it creates 10 cents profits for every \$1 shareholder equity, which is basically the company's assets minus debt. A company's ROE deemed good or bad depends on what's normal for its peers or industry group.

Sales/Assets Ratio: The sales-to-assets ratio or asset utilization ratio or asset turnover ratio is calculated as a company's annual sales divided by average assets (average of assets at the beginning of the year and at the year's end). This metric helps investors understand how effectively a company is using its assets to generate sales. For example, a sales-to-assets ratio of 2.5 indicates that the company generated \$2.50 in sales for every \$1 of assets on its books.

The higher the sales-to-assets ratio, the better the company is performing. However, similar to many other ratios, the asset turnover ratio tends to be higher for companies in certain industries/sectors than in others. So, a company's sales-to-assets ratio should be compared with the same for its industry/sector.

Historical EPS Growth (3-5 Years): This is the average annual (trailing-12-month) EPS growth rate over the last 3-5 years. This metric helps investors see how a company's EPS has grown from a long-term perspective.

Note: There are many factors that can influence short-term numbers — a recession will reduce this number, while a recovery will inflate it. The longterm perspective helps smooth out short-term events.

Projected EPS Growth (F1/F0): This is the estimated EPS growth rate for the current financial year. It is calculated as the consensus estimate for the current fiscal year (F1) divided by the reported EPS for the last completed fiscal year (F0).

Current Cash Flow Growth: It measures the latest year-over-year change in operating cash flow. Cash flow growth tells an investor how quickly a company is generating inflows of cash from operations. A positive change in the cash flow is desired and shows that more 'cash' is coming in than going out.

Historical Cash Flow Growth (3-5 Years): This is the annualized change in cash flow over the last 3-5 years. The change in a longer period helps put the current reading into proper perspective. By looking at the rate, rather than the actual dollar value, the comparison across the industry and peers becomes easier.

Projected Sales Growth (F1/F0): This metric looks at the estimated sales growth for the current year. It is calculated as sales estimate for the current fiscal year (F1) divided by the reported sales for the last completed fiscal year (F0).

Like EPS growth, a higher rate is better for sales growth. A look at a company's projected sales growth instantly tells you what the outlook is for their products and services. However, different sales growth rates are considered good for different industries, so it's better to compare sales growth rates of companies in the same industry group.

EPS F1 Estimate 1-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past week. The change in a company's consensus EPS estimate (or earnings estimate revision) has proven to be strongly correlated with the near-term price movement of its shares. It is an integral part of the Zacks Rank.

If a stock's consensus EPS estimate is \$1.10 now versus \$1.00 a week ago, that will be reflected as a 10% upward revision. If, on the other hand, it went from \$1.00 to 90 cents, that would be a 10% downward revision.

EPS F1 Estimate 4-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past four weeks.

A stock's earnings estimate revision in a 1-week period is important. But it's more meaningful to look at the longer-term revision. And, of course, the 4-week change helps put the 1-week change into proper perspective.

EPS F1 Estimate 12-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past 12 weeks.

This metric essentially shows how the consensus EPS estimate has changed over a period longer than 1 week or 4 weeks.

EPS Q1 Estimate Monthly Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal quarter over the past four weeks.

While the revision in consensus EPS estimate for the current fiscal year is strongly correlated with the near-term price movement of its shares, the estimate revision for the current fiscal quarter is an important metric as well, especially over the short term, and particularly as a stock approaches its earnings date. If a stock's Q1 EPS estimate decreases ahead of its earnings release, it's usually a negative sign, whereas an increase is a positive sign.