

## Suncor Energy Inc. (SU)

**\$16.45** (As of 08/27/20)

Price Target (6-12 Months): **\$17.00**

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: D

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.

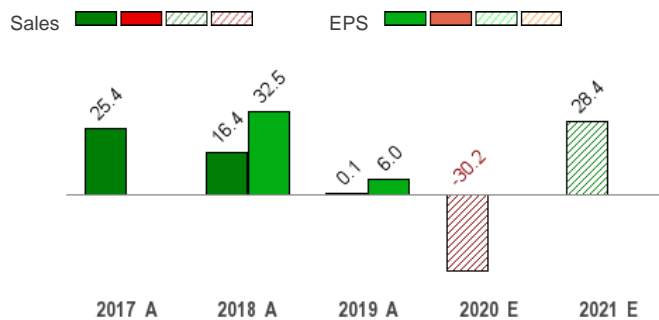
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$34.56 - \$9.61
20 Day Average Volume (sh)	4,367,123
Market Cap	\$25.1 B
YTD Price Change	-49.9%
Beta	1.36
Dividend / Div Yld	\$0.63 / 3.7%
Industry	<a href="#">Oil and Gas - Integrated - Canadian</a>
Zacks Industry Rank	Top 48% (122 out of 252)

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



Last EPS Surprise	-61.4%
Last Sales Surprise	-24.7%
EPS F1 Est- 4 week change	-2.5%
Expected Report Date	11/04/2020
Earnings ESP	-132.1%

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	7,487 E	7,591 E	7,685 E	7,689 E	26,490 E
2020	5,783 A	3,062 A	5,346 E	6,150 E	20,625 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	\$0.12 E	\$0.18 E	\$0.20 E	\$0.17 E	\$0.54 E
2020	-\$0.15 A	-\$0.71 A	-\$0.03 E	\$0.01 E	-\$0.91 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.

P/E TTM	205.6
P/E F1	NA
PEG F1	NA
P/S TTM	1.1

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/27/2020. The reports text is as of 08/28/2020.

## Overview

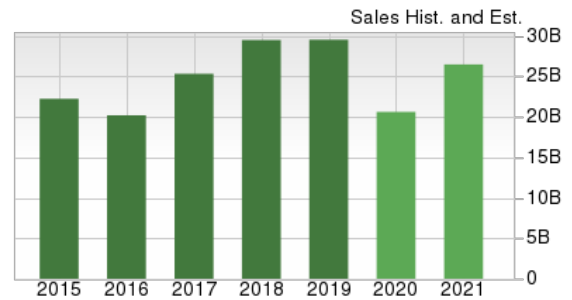
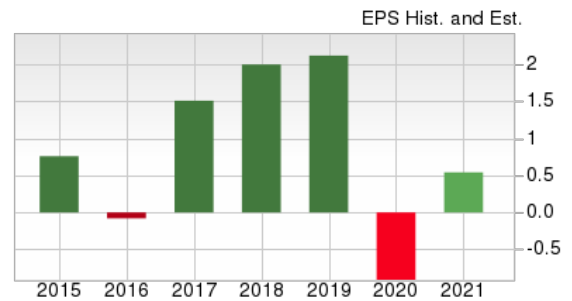
Founded in 1917, Alberta-based Suncor Energy, Inc. is Canada's premier integrated energy company. The company's operations include oil sands development and upgrading, conventional and offshore crude oil and gas production, petroleum refining, and product marketing. Suncor is one of the largest owners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

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## 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 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 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 49.8% in the year-to-date period and 43.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oil-Energy sector are down 50.4% and 37.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 44.5% and 32.3%, respectively.

The S&P 500 index is up 8.3% in the year-to-date period and 19.4% in the past year.

The stock is currently trading at 3.64X trailing 12-month EV/EBITDA, which compares to 4X for the Zacks sub-industry, 4.29X for the Zacks sector and 13.27X 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 \$17 price target reflects 1.1X 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	3.64	4	4.29	13.27
	5-Year High	14.3	13.53	10.48	13.27
	5-Year Low	2.26	2.31	3.05	8.25
	5-Year Median	7.55	8.47	6.47	10.92
P/S F12M	Current	1.03	0.86	0.71	3.82
	5-Year High	2.67	1.92	1.47	3.82
	5-Year Low	0.5	0.64	0.59	2.53
	5-Year Median	1.87	1.49	0.99	3.05
P/B TTM	Current	0.95	0.78	1.03	4.71
	5-Year High	1.95	1.57	1.55	4.71
	5-Year Low	0.51	0.38	0.52	2.83
	5-Year Median	1.47	1.25	1.32	3.76

As of 08/27/2020

## Industry Analysis Zacks Industry Rank: Top 48% (122 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
Canadian Natural Resources Limited (CNQ)	Outperform	3
ConocoPhillips (COP)	Neutral	3
Cenovus Energy Inc (CVE)	Neutral	2
EOG Resources, Inc. (EOG)	Neutral	2
Enerplus Corporation (ERF)	Neutral	3
Imperial Oil Limited (IMO)	Neutral	3
Ovintiv Inc. (OVV)	Neutral	3
Occidental Petroleum Corporation (OXY)	Neutral	3

## Industry Comparison Industry: Oil And Gas - Integrated - Canadian

	SU	X Industry	S&P 500	CNQ	CVE	IMO
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	2	3
VGM Score	B	-	-	C	D	D
Market Cap	25.09 B	9.09 B	23.67 B	23.66 B	5.91 B	12.27 B
# of Analysts	4	5	14	5	5	3
Dividend Yield	3.71%	3.80%	1.64%	6.16%	2.73%	3.90%
Value Score	B	-	-	B	B	B
Cash/Price	0.06	0.02	0.07	0.02	0.02	0.01
EV/EBITDA	3.59	4.90	13.33	4.51	4.10	5.71
PEG Ratio	NA	NA	3.05	NA	NA	NA
Price/Book (P/B)	0.95	0.85	3.18	1.01	0.47	0.74
Price/Cash Flow (P/CF)	2.24	2.90	12.81	3.45	2.90	5.04
P/E (F1)	NA	NA	21.68	NA	NA	NA
Price/Sales (P/S)	1.06	0.61	2.50	1.54	0.49	0.60
Earnings Yield	-5.53%	-7.84%	4.43%	-2.95%	-26.20%	-7.84%
Debt/Equity	0.51	0.54	0.74	0.65	0.56	0.22
Cash Flow (\$/share)	7.36	3.32	6.94	5.80	1.66	3.32
Growth Score	D	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	6.28%	13.14%	10.41%	33.72%	NA	20.00%
Proj. EPS Growth (F1/F0)	-142.92%	-186.94%	-4.94%	-124.67%	-550.71%	-178.92%
Curr. Cash Flow Growth	46.54%	-0.71%	5.22%	4.07%	-523.22%	-17.04%
Hist. Cash Flow Growth (3-5 yrs)	4.04%	0.09%	8.50%	-0.87%	0.09%	-9.11%
Current Ratio	1.02	1.17	1.35	0.83	1.23	1.20
Debt/Capital	33.72%	34.87%	43.86%	39.58%	36.03%	17.81%
Net Margin	-17.17%	-5.30%	10.25%	0.33%	-10.63%	0.03%
Return on Equity	0.44%	0.74%	14.66%	1.56%	-8.03%	1.03%
Sales/Assets	0.36	0.57	0.50	0.27	0.47	0.67
Proj. Sales Growth (F1/F0)	-29.82%	-31.22%	-1.43%	-29.24%	-37.71%	-32.62%
Momentum Score	A	-	-	A	A	F
Daily Price Chg	0.98%	-0.40%	0.43%	0.35%	-0.21%	-0.59%
1 Week Price Chg	-6.88%	-5.76%	-1.45%	-4.96%	-9.13%	-4.64%
4 Week Price Chg	1.48%	3.45%	3.75%	11.77%	4.57%	2.33%
12 Week Price Chg	-14.46%	-2.11%	3.95%	-1.48%	-0.21%	-4.02%
52 Week Price Chg	-43.59%	-43.59%	2.75%	-17.03%	-45.89%	-31.82%
20 Day Average Volume	4,367,123	2,355,938	1,887,168	2,668,543	4,253,760	458,116
(F1) EPS Est 1 week change	2.41%	1.10%	0.00%	12.94%	1.10%	0.51%
(F1) EPS Est 4 week change	-2.54%	-2.54%	0.79%	42.75%	3.96%	-31.00%
(F1) EPS Est 12 week change	20.17%	20.17%	3.43%	54.05%	23.36%	7.58%
(Q1) EPS Est Mthly Chg	71.43%	71.43%	0.00%	79.11%	72.00%	-625.00%

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## 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.

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### 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>D</b>
Momentum Score	<b>A</b>
VGM Score	<b>B</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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