

# Suncor Energy Inc.

(SU)

41.31 +0.44 (+1.08%)

At close 6/06/2022 04:00PM EDT

CEO	Description
Mark Little	Suncor Energy Inc. operates as an integrated energy company primarily focusing on developing petroleum resource basins in Canada's Athabasca oil sands; explores, acquires, develops, produces, transports, refines, and markets crude oil in Canada and internationally; markets petroleum and petrochemical products under the Petro-Canada name primarily in Canada. It operates through Oil Sands; Exploration and Production; Refining and Marketing; and Corporate and Eliminations segments. The Oil Sands segment recovers bitumen from mining and in situ operations, and upgrades it into refinery feedstock and diesel fuel, or blends the bitumen with diluent for direct sale to market. The Exploration and Production segment is involved in offshore operations off the east coast of Canada and in the North Sea; and operating onshore assets in Libya and Syria. The Refining and Marketing segment refines crude oil and intermediate feedstock into various petroleum and petrochemical products; and markets refined petroleum products to retail, commercial, and industrial customers through its other retail sellers. The Corporate and Eliminations segment operates four wind farms in Ontario and Western Canada. The company also markets and trades in crude oil, natural gas, byproducts, refined products, and power. The company was formerly known as Suncor Inc. and changed its name to Suncor Energy Inc. in April 1997. Suncor Energy Inc. was founded in 1917 and is headquartered in Calgary, Canada.
Sector	
Energy	
Industry	
Oil & Gas Integrated	
Exchange	
NYSE	

At the end of trading Monday, Suncor Energy finished 62.06 percent above its market price one year ago (25.49, 4-Jun-21), with a positive 67.45 percent return (including dividend payments). Despite the current market correction, Suncor is experiencing an explosive 2022. Indeed, year-to-date, Suncor is up 64.12 percent (25.17, 3-Jan-22) and has returned 66.92 percent (including dividend payments).

Q1 2022 witnessed a \$2.3 billion increase in revenue over Q4 2021; as well as increases in both EBIT and Net Income by 94.53 and 89.89 percent, respectively, from Q4 2021. Although, Suncor missed analyst's earnings estimates last year, they put up strong EPS during Q1 2022 and beat analyst's estimates by 32 cents.

Our DCF valuation indicates Suncor is trading at a **discount** as compared to the current market, with an implied share price between 85.44 and 87.91.

Estimated Value Spread: ± 3%		
Lower Limit	Middle Range	Upper Limit
\$82.88	\$82.89 - \$90.53	\$90.54
<i>SU is currently trading at a discount</i>		

Our valuation assumes a sustained 14 percent growth in revenue year-over-year; which might be quite conservative. Ninety-eight percent of Canada's oil reserves lie in Alberta, and Alberta-based Suncor controls more of those reserves than any other company. Additionally, unlike traditional oil wells which run until the well is dry, oil sands have a significantly longer lifespan. Suncor is the largest oil player in Canada, but it doesn't just collect revenue from extracting oil, it owns more than 1,850 gas stations across Canada and they are currently building EV charging stations from coast to coast in Canada.

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Target price range: \$85.44 - \$87.91

Integrated Oil &amp; Gas

	2021	2022	2023	2024	2025	2026
	0	1	2	3	4	5
EBIT	\$ 6,589,000.0	\$ 3,038,147.0	\$ 3,465,949.3	\$ 3,953,990.6	\$ 4,510,753.1	\$ 5,145,913.6
Tax Expense	1,716,434.5	668,392.3	762,508.8	869,877.9	992,365.7	1,132,101.0
<b>NOPLAT</b>	<b>4,872,565.5</b>	<b>2,369,754.6</b>	<b>2,703,440.5</b>	<b>3,084,112.7</b>	<b>3,518,387.5</b>	<b>4,013,812.6</b>
Depreciation	5,850,000.0	10,584,651.7	12,075,079.5	13,775,374.9	15,715,089.3	17,927,935.5
CapEx	4,555,000.0	4,495,522.9	5,128,538.8	5,850,689.8	6,674,527.1	7,614,369.1
Δ NWC	1,741,000.0	(1,429,073.5)	(119,839.9)	(136,714.6)	(155,965.4)	(177,927.0)
<b>Unlevered FCF</b>	<b>7,908,565.5</b>	<b>7,029,809.9</b>	<b>9,530,141.3</b>	<b>10,872,083.2</b>	<b>12,402,984.3</b>	<b>14,149,452.0</b>
Terminal Value						167,449,672
<b>PV of UFCF</b>	<b>7,908,565.5</b>	<b>6,354,976.6</b>	<b>7,788,253.8</b>	<b>8,032,003.8</b>	<b>8,283,382.5</b>	<b>109,639,147</b>

Enterprise Value \$ 140,097,764.2

Net Debt 16,149,000.0

Implied Equity \$ 123,948,764.2

Outstanding Shares 1,410,000.0

Implied Share Price \$87.91

\* Using 1.853 Beta resulting in 10.619% WACC

USD\$ in thousands

	2021	2022	2023	2024	2025	2026
	0	1	2	3	4	5
Free Cash Flow	7,908,565.5	7,029,809.9	9,530,141.3	10,872,083.2	12,402,984.3	14,149,452.0
<i>Discount Factor</i>		<i>0.90</i>	<i>0.81</i>	<i>0.73</i>	<i>0.66</i>	<i>0.59</i>
Present Value of Free Cash Flow		6,324,297.8	7,713,239.2	7,916,240.2	8,124,583.8	8,338,410.7

Enterprise Value \$ 136,620,124.0

TV EBITDA 12,439,000.0

Exit Multiple 14.9

Net Debt 16,149,000.0

Terminal Value (TV) 185,231,106.5

Implied Equity \$ 120,471,124.0

Outstanding Shares 1,410,000.0

Implied Share Price \$85.44

*Discount Factor* 0.53

PV of TV 98,203,352.4

PV of FCF 38,416,771.7

\* Using relevered 1.9899 Beta (based on comparables) resulting in 11.156% WACC

USD\$ in thousands

**Assumptions:**

- Using tax rate of 22.00% for projected years
- Terminal Value long-term growth rate is 2.000%
- 2.85% Risk free rate
- Suncor Energy Inc. Beta = 1.853
- 5.80% Equity Risk Premium