Rating: Buy
S&P 500: 1065

Suncor Energy Inc.
A Boone and Charlie Favorite

Symbol	SU	*Ebitda Next Twelve Months ending 6/30/05 (US$mm)*	2,300
Rating	Buy	*North American Natural Gas/Ebitda (%)*	9
Price (US$/sh)	28.54	*Natural Gas and Oil Production/Ebitda (%)*	95
Pricing Date	8/13/04	*Adjusted Reserves/Production NTM*	18.3
Shares (mm)	460	*EV/Ebitda*	6.8
Market Capitalization (US$mm)	13,100	*PV/Ebitda*	8.7
Debt (US$mm)	2,500	*Undeveloped Reserves (%)*	1
Enterprise Value (EV) (US$mm)	15,700	*Natural Gas and Oil Ebitda (US$/boe)*	22.10
Present Value (PV) (US$mm)	20,000	*Present Value Proven Reserves(US$/boe)*	10.47
Net Present Value (US$/share)	38	*Present Value Proven Reserves(US$/mcfe)*	1.75
Debt/Present Value	0.13	*Earnings Next Twelve Months (US$/sh)*	1.79
McDep Ratio - EV/PV	0.78	*Price/Earnings Next Twelve Months*	16
Dividend Yield (%/year)	0.6	*Indicated Annual Dividend (US$/sh)*	0.18

Note: Estimated cash flow and earnings tied to one-year futures prices for oil, natural gas and refinery crack.
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

Summary and Recommendation

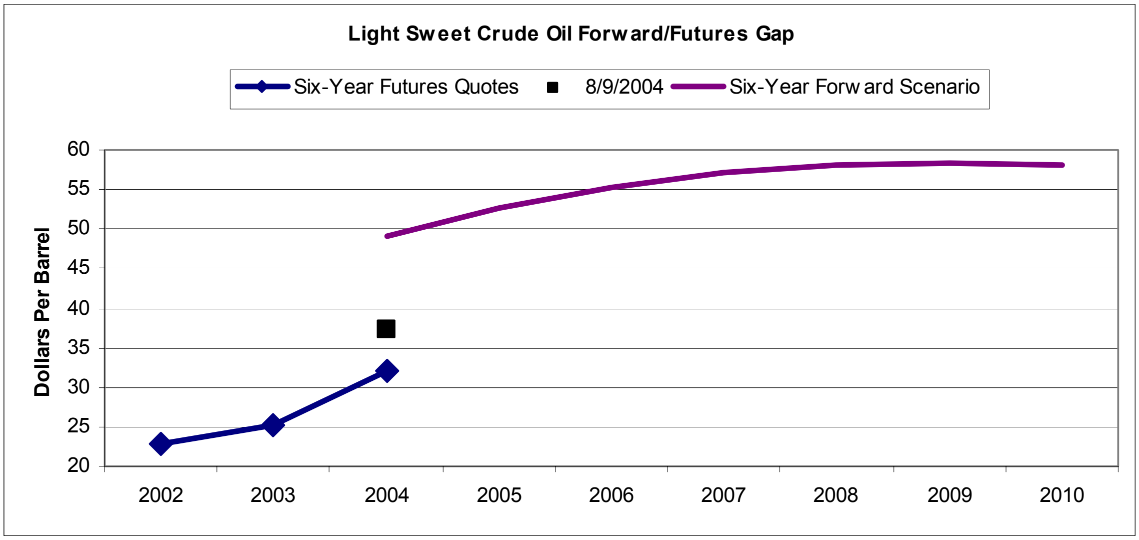
We continue a Buy rating on the common shares of **Suncor Energy (SU)** for large cap growth participation in Canadian oil sands, the vast, politically safe energy resources in northern Alberta. We hear regularly from their fans that the stock is, or has been, the favorite of well-known oilman, Boone Pickens, and well-known oil analyst, Charlie Maxwell. Whether or not those endorsements have boosted the stock, we believe it has further appreciation potential of at least a third to our present value that is consistent with $30 to $35 oil. Of course, oil is already $46 and the subject of endless commentary. Volume growth, long-life, North American origin, competent management, and market liquidity make the stock look like a continued good bet for those who can tolerate some risk.

Moderate Oil Price Scenario

The value of the company depends in large part on the future price of crude oil. Publicly traded in the commodity markets, futures contracts for delivery over the next six years continue in a steep uptrend. Whether the trend will slow for awhile we cannot know. Our scenario is that a move that began in the low $20 and is now in the mid $30 could reach $50 (see chart).

To construct the scenario we assumed oil would peak in 2010 at $50 in 2003 dollars. That is more moderate than the peak in early 1981 at more than $80 in 2003 dollars. Then we applied 3% per year inflation and calculated six-year averages to build a forward curve.

Economics support the price trends. Oil demand is strong with world economic growth paced by developing countries, especially China. Supply growth is limited as spare capacity has virtually disappeared. The largest producing fields in the Middle East are now mature. It will take time, large amounts of capital and a secure political climate to boost producing rates.



Monetary factors favor oil investment as interest rates below inflation drive investors to real assets for protection against the dollar losing value. If similar past periods are any guide, the authorities may not raise interest rates above inflation for the rest of the decade.

Environmental factors favor higher oil and gas price. Coal is still a quarter of world primary energy supply. Cleaner oil and gas are undervalued as long as we tolerate environmentally disadvantageous coal.

Political factors favor higher oil price in consuming countries and producing countries. Consuming governments often resort to artificial forces to hold down oil price that can appear to work temporarily. Military force could fall into that category though we would like to believe the objectives for deployment would be more worthy. Thirty years ago some of the same political leaders now directing military force directed price controls in a failed attempt to hold oil price artificially low.

In producing countries we have seen time and again that oil production goes down when international oil companies are not welcome. After Iran, Iraq and Venezuela, now Saudi Arabia appears vulnerable to political change that may bring about production decline.

Oil stock price can decline even if oil price remains firm. That happened in 1974 when economic activity and the stock market declined severely. It seemed to occur again in 2002 and we hope that is now behind us. Nonetheless the stock market may have begun a new moderate downward phase of its cycle. While oil stocks may not be entirely immune to surprise declines, we believe the fundamental outlook can carry the stocks higher over the next several years.

One-Year Futures Point to Higher Cash Flow and Profits

As our next twelve months (NTM) cash flow model moves ahead to the period ending June 30, 2005 expectations also advance mainly because of advancing one-year futures. We relate natural gas and oil price to the quotes for commodities traded on the New York Mercantile Exchange (see table Next Twelve Months Operating and Financial Estimates).

Suncor
Next Twelve Months Operations
(Canadian Dollars)

	Q1 *3/31/04*	*Q2* *6/30/04*	*Q3E* *9/30/04*	*Q4E* *12/31/04*	***Year*** ***2004E***	*Q1E* *3/31/05*	*Q2E* *6/30/05*	***Next Twelve Months*** ***6/30/05***
Volume								
Natural Gas (mmcfd)	197	209	209	209	**206**	209	209	**209**
Oil (mbd)	217	235	235	235	**231**	235	235	**235**
Total gas & oil (bcf)	135	147	149	149	**580**	146	147	**591**
Total gas & oil (mbd))	250	270	270	270	**265**	270	270	**270**
Price								
Natural gas ($/mcf)								
Henry Hub ($/mmbtu)	5.64	6.10	5.74	6.28	**5.94**	6.88	6.13	**6.26**
Currency (US$/C$)	0.76	0.76	0.76	0.76	**0.76**	0.76	0.76	**0.76**
Henry Hub (C$/mmbtu)	7.43	7.99	7.51	8.22	**7.79**	9.01	8.03	**8.19**
U.S. (or North America)	6.54	6.84	6.44	7.04	**6.72**	7.72	6.88	**7.02**
Oil ($/bbl)								
WTI Cushing	35.23	38.34	43.19	43.93	**40.17**	42.25	40.88	**42.56**
WTI Cushing (C$/bbl)	46.41	50.20	56.55	57.52	**52.67**	55.32	53.53	**55.73**
Company	43.28	48.18	54.27	55.20	**50.41**	53.09	51.38	**53.49**
Total gas & oil ($/mcf)	7.12	7.88	8.71	8.92	**8.18**	8.70	8.35	**8.67**
NY Harbor 3-2-1 ($/bbl)	6.98	11.45	8.04	6.98	**8.36**	7.83	7.78	**7.66**
Revenue ($mm)								
Natural Gas	116	130	124	135	**505**	145	131	**535**
Oil	845	1,030	1,173	1,193	**4,242**	1,123	1,099	**4,588**
Other	834	1,041	1,041	1,041	**3,956**	1,041	1,041	**4,162**
Total	1,795	2,201	2,338	2,369	**8,703**	2,309	2,270	**9,286**
Expense								
Fixed	248	270	270	270	**1,059**	270	270	**841**
Variable	248	270	302	310	**1,130**	296	287	**847**
Other	784	1,021	1,573	1,583	**4,961**	1,567	1,558	**6,858**
Ebitda ($mm)								
Exploration and Production	465	620	724	749	**2,558**	702	673	**2,848**
Other	50	20	40	37	**147**	40	39	**156**
Total Ebitda	515	640	764	786	**2,705**	742	712	**3,004**
Exploration	33	5	5	5	**48**	5	10	**25**
Deprec., Deplet., & Amort.	174	177	177	177	**705**	177	177	**708**
Other non cash		120	135	137	**393**	106	102	**481**
Ebit	308	338	447	467	**1,560**	454	423	**1,790**
Interest	39	33	33	33	**139**	33	33	**133**
Ebt	269	304	414	433	**1,421**	421	389	**1,657**
Income Tax	55	107	145	152	**458**	147	136	**580**
Net Income ($mm)								**-**
Exploration and Production	260	267	356	374	**1,257**	361	334	**1,425**
Other	27	9	20	19	**74**	20	20	**78**
Unallocated	(73)	(78)	(106)	(111)	**(369)**	(108)	(100)	**(426)**
Total	214	198	269	282	**962**	273	253	**1,077**
Shares (millions)	465	460	460	460	**461**	460	460	**460**
Per share ($)	0.46	0.43	0.58	0.61	**2.09**	0.59	0.55	**2.34**
Ebitda Margin	29%	29%	33%	33%	**31%**	32%	31%	**32%**
Tax Rate	20%	35%	35%	35%	**32%**	35%	35%	**35%**

Investors who want calendar year estimates can find 2004 in the table. For 2005 we suggest using the next twelve months as a rough estimate. Estimates can change frequently along with oil markets.

Suncor's Staggering Hedging Losses

What may have once looked like a prudent move in Suncor management eyes, to sell crude oil forward to lock in revenue, now looks like a speculative gamble gone awry. The Suncor Board of Directors has decreed that no more hedges shall be entered into for now, but the damage will continue for a while into next year. It looks like the losses are currently running at the rate of a half billion Canadian dollars a year. We refer to the item euphemistically as "Other Non Cash" in the quarterly model above. We figure future cash flow before hedging to get a more realistic valuation indication and we estimate earnings after hedging. The best we can say about hedging is that the damage usually ends in a year or a little more.

Present Value at Real Price and Real Return

NTM estimates determine to a large extent the first year of projected cash flow that we discount to present value (see table Present Value of Oil and Gas Reserves). For Suncor, we set up the calculation as though the whole company was an oil sands operation. That is not too far from the truth. Natural gas production goes mostly to defray fuel and feedstock costs for mining and upgrading. The Suncor refining system can be considered an extension of oil sands value chain that garners a little more profit for the basic volume. That also makes Suncor more similar to its neighbor, Syncrude, where more upgrading is conducted close to the mine site.

While there are many assumptions that could be discussed, discount rate and oil price are especially important. Price escalation and discount rate interact. In this case we make the simplification of dealing in constant dollars. That assumes price escalation, cost escalation and discount rate are all net of inflation.

For discount rate we use a 7% real return per year on an unlevered basis. That means a buyer who pays present value would earn 7% per year above inflation if all the projections were to materialize as stated.

While first year oil price is from the futures market we hold it constant at an arbitrary level thereafter. The assumed price listed in the upper right hand corner is the commonly quoted benchmark Light, Sweet Crude.

Present Value Leads to Present Value per Share

We illustrate the calculation of Net Present Value (NPV) in a sensitivity table where each column is headed by a different oil price (see table Net Present Value Calculation). The price of $35 a barrel corresponds to our standardized present value of $38 a share.

Suncor and Syncrude More Similar than Different

Our present value for all of Suncor is similar to our present value for all of Syncrude. Volumes are comparable now and will likely continue to be so at higher levels in a few years. The differences are quite subtle. Both are valuable assets likely to be rewarding investments, in our opinion. As Boone and Charlie apparently see, few oil investments are more attractively positioned than a stock representing Canadian oil sands.

Kurt H. Wulff, CFA

Suncor Energy Inc.
Present Value of Integrated Business
(U.S. dollars)

Variable Cost (%):	17	Nymex Oil Price Post 2005 ($/bbl)	35
Royalty (%):	25	Real Discount Rate (%/yr):	7.0

Year	Volume (mmb)	Price ($/bbl)	Revenue ($mm)	Fixed Cost ($mm)	Var. Cost ($mm)	Cap Ex ($mm)	Cash Flow ($mm)	Royalty ($mm)	Free CF ($mm)	Disc Factor	Present Value ($mm)
Total 2005 through 2034; years ending on 6/30											
	3921	33.75	132348	26307	21970	18200	65871	15816	50055	0.40	20000
2005	98	39.73	3913	669	650	1300	1294	300	994	0.97	961
2006	100	33.60	3360	669	558	1300	833	200	633	0.90	572
2007	105	33.60	3528	669	586	1300	973	200	773	0.84	653
2008	134	33.60	4502	900	747	1300	1554	200	1354	0.79	1069
2009	134	33.60	4502	900	747	500	2354	200	2154	0.74	1589
2010	134	33.60	4502	900	747	500	2354	589	1766	0.69	1217
2011	134	33.60	4502	900	747	500	2354	589	1766	0.64	1138
2012	134	33.60	4502	900	747	500	2354	589	1766	0.60	1063
2013	134	33.60	4502	900	747	500	2354	589	1766	0.56	994
2014	134	33.60	4502	900	747	500	2354	589	1766	0.53	929
2015	134	33.60	4502	900	747	500	2354	589	1766	0.49	868
2016	134	33.60	4502	900	747	500	2354	589	1766	0.46	811
2017	134	33.60	4502	900	747	500	2354	589	1766	0.43	758
2018	134	33.60	4502	900	747	500	2354	589	1766	0.40	708
2019	134	33.60	4502	900	747	500	2354	589	1766	0.37	662
2020	134	33.60	4502	900	747	500	2354	589	1766	0.35	619
2021	134	33.60	4502	900	747	500	2354	589	1766	0.33	578
2022	134	33.60	4502	900	747	500	2354	589	1766	0.31	540
2023	134	33.60	4502	900	747	500	2354	589	1766	0.29	505
2024	134	33.60	4502	900	747	500	2354	589	1766	0.27	472
2025	134	33.60	4502	900	747	500	2354	589	1766	0.25	441
2026	134	33.60	4502	900	747	500	2354	589	1766	0.23	412
2027	134	33.60	4502	900	747	500	2354	589	1766	0.22	385
2028	134	33.60	4502	900	747	500	2354	589	1766	0.20	360
2029	134	33.60	4502	900	747	500	2354	589	1766	0.19	337
2030	134	33.60	4502	900	747	500	2354	589	1766	0.18	315
2031	134	33.60	4502	900	747	500	2354	589	1766	0.17	294
2032	134	33.60	4502	900	747	500	2354	589	1766	0.16	275
2033	134	33.60	4502	900	747	500	2354	589	1766	0.15	257
2034	134	33.60	4502	900	747	500	2354	589	1766	0.14	240

Suncor Energy Inc.
Net Present Value Calculation
(U.S. dollars)

Constant Oil Price ($/bbl):	30	35	40
Present Value	15,000	20,000	25,000
Debt ($mm):	2,500	2,500	2,500
Present Value of Equity ($mm):	12,500	17,500	22,500
Shares (mm):	460	460	460
Net Present Value ($/sh):	27	38	49

Research Methodology/Ratings Description: McDep Associates is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a negative total return less than 7% per year including the effects of inflation.