

Rating: Buy
S&P 500: 1183

Suncor Energy Inc.

Raise Net Present Value to US\$42 a Share

<i>Symbol</i>	SU	<i>Ebitda Next Twelve Months ending 12/31/05 (US\$mm)</i>	2,400
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	9
<i>Price (US\$/sh)</i>	31.86	<i>Natural Gas and Oil Production/Ebitda (%)</i>	87
<i>Pricing Date</i>	12/8/04	<i>Adjusted Reserves/Production NTM</i>	18.4
<i>Shares (mm)</i>	460	<i>EV/Ebitda</i>	7.1
<i>Market Capitalization (US\$mm)</i>	14,700	<i>PV/Ebitda</i>	9.0
<i>Debt (US\$mm)</i>	2,600	<i>Undeveloped Reserves (%)</i>	1
<i>Enterprise Value (EV) (US\$mm)</i>	17,300	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	22.00
<i>Present Value (PV) (US\$mm)</i>	22,000	<i>Present Value Proven Reserves(US\$/boe)</i>	10.82
<i>Net Present Value (US\$/share)</i>	42	<i>Present Value Proven Reserves(US\$/mcf)</i>	1.80
<i>Debt/Present Value</i>	0.12	<i>Earnings Next Twelve Months (US\$/sh)</i>	2.00
<i>McDep Ratio - EV/PV</i>	0.79	<i>Price/Earnings Next Twelve Months</i>	16
<i>Dividend Yield (%/year)</i>	0.6	<i>Indicated Annual Dividend (US\$/sh)</i>	0.20

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

Buy-recommended **Suncor (SU)** offers long-life growth potential in production from Canadian oil sands that we value at US\$42 a share, up from US\$38. The new estimate is reasonably consistent with our valuation of neighboring oil sands plant, Syncrude, owned by other buy-recommended companies and a trust. Suncor is the largest, U.S. traded, publicly held, concentrated investment in the unique Canadian resource. Oil sands have special appeal for their long-life production that is likely to multiply in value as world conventional light oil production appears to have reached its annual limit in 2004. Financial risk is low with a ratio of debt to present value of 0.12.

Rich in Oil Resources

Having recently considered the company in one business, oil sands, we revert to looking at three functional areas. To no surprise oil resources account for the dominant portion of value (see table Functional Cash Flow and Present Value). The adjusted reserve life for oil is arbitrarily limited to 20 years.

Though natural gas could be considered supportive of oil sands operations because it is consumed as fuel, we look at it as a stand alone function here. It is a useful strategic hedge for Suncor to own natural gas production, but it is also clear that the life of current natural gas resources does not match the long life of oil sands.

Refining/marketing is also supportive of oil sands as Suncor increasingly shifts the upgrading of oil sands product away from the mine site. The refining/marketing business might be considered a longer life business than oil production generally, but historically has been more competitive and less consistently profitable.

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Suncor
Functional Cash Flow and Present Value

	<i>NTM Ebitda</i> <i>(US\$mm)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$mm)</i>	
North American Natural Gas	210	7.3	5.3	1,100	5%
Oil	1,910	20.0	9.9	19,000	86%
Downstream	310		6.0	1,900	9%
	2,430	18.4	9.1	22,000	100%
Debt (US\$mm)					2,600
Net Present Value (US\$mm)					19,400
Shares (mm)					460
Net Present Value (US\$/sh)					42

Adjusted reserve life of 18.4 years for oil and natural gas is far longer than for peer companies. In the current correlation of present value with reserve life for 30 stocks, the company's multiple, PV/Ebitda, could be considered low by 0.4 times. Some of that difference could be attributed to the portion of the company's operations in downstream that might be assessed at a lower multiple than production.

The value of oil production of US\$19.0 billion seems consistent with our value of the other large nearby oil sands facility, Syncrude, of US\$22.8 billion. The two plants both produce near 240,000 barrels daily. Syncrude volume should jump 50% in the next few years while Suncor has recently completed a major expansion. The product of Syncrude is more highly refined at the mine than is the case for Suncor.

Cash Flow Continues at a High Level

Commodity price drives cash flow in our model (see table Next Twelve Months Operating and Financial Estimates). We project flat volume for production operations near term though growth over time is likely. Projected refining/marketing margins reflect futures prices for gasoline and heating oil compared to crude oil.

After a gain in the last quarter of 2004, cash flow would be sustained at a high level in 2005. Of course that could change depending on how well futures prices anticipate actual prices among other factors.

Kurt H. Wulff, CFA

Suncor
Next Twelve Months Operations
(Canadian Dollars)

	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Next Twelve Months</i>
	<i>3/31/04</i>	<i>6/30/04</i>	<i>9/30/04</i>	<i>12/31/04</i>	<i>2004E</i>	<i>3/31/05</i>	<i>6/30/05</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>12/31/05</i>
Volume										
Natural Gas (mmcf)	197	209	201	201	202	201	201	201	201	201
Oil (mbd)	217	235	230	230	228	230	230	230	230	230
Total gas & oil (bcf)	135	147	145	145	573	142	144	145	145	577
Total gas & oil (mbd))	250	270	264	264	262	264	264	264	264	264
Price										
Natural gas (\$/mcf)										
Henry Hub (\$/mmbtu)	5.64	6.10	5.75	7.10	6.15	6.96	6.33	6.38	6.68	6.59
Currency (US\$/C\$)	0.76	0.74	0.77	0.82	0.77	0.82	0.82	0.82	0.82	0.82
Henry Hub (C\$/mmbtu)	7.43	8.29	7.47	8.63	7.96	8.46	7.70	7.76	8.12	8.01
U.S. (or North America)	6.54	6.84	6.53	7.54	6.87	7.39	6.73	6.79	7.10	7.00
Oil (\$/bbl)										
WTI Cushing	35.23	38.34	43.89	48.12	41.39	43.14	43.02	42.50	41.92	42.65
WTI Cushing (C\$/bbl)	46.41	52.09	57.01	58.53	53.51	52.48	52.33	51.69	51.00	51.87
Company	43.28	48.18	52.61	54.02	49.64	48.43	48.29	47.71	47.06	47.87
Total gas & oil (\$/mcf)	7.12	7.88	8.48	8.82	8.09	7.99	7.88	7.80	7.75	7.85
NY Harbor 3-2-1 (\$/bbl)	6.98	12.67	7.83	5.02	8.12	6.50	8.02	7.25	5.95	6.93
Revenue (\$mm)										
Natural Gas	116	130	121	140	506	134	123	125	131	514
Oil	845	1,030	1,113	1,143	4,132	1,003	1,011	1,010	996	4,019
Other	834	1,041	1,081	1,081	4,036	1,081	1,081	1,081	1,081	4,324
Total	1,795	2,201	2,315	2,364	8,675	2,217	2,215	2,216	2,208	8,856
Expense (\$mm)										
Fixed	198	263	253	253	967	253	253	253	253	824
Variable	198	263	253	263	977	233	233	233	231	777
Other	784	1,021	986	1,519	4,309	1,478	1,467	1,472	1,479	6,756
Ebitda (\$mm)										
Exploration and Production	566	634	728	766	2,694	650	648	649	643	2,590
Other	50	37	95	78	260	90	100	95	87	371
Total Ebitda	616	654	823	844	2,937	740	748	744	730	2,962
Exploration	33	5	10	10	58	10	10	10	10	40
Deprec., Deplet., & Amort.	174	177	183	183	717	183	183	183	183	732
Hedging	101	134	181	186	601	80	81	79	78	319
Ebit	308	338	449	466	1,561	466	475	472	458	1,871
Interest	39	33	32	32	136	32	32	32	32	127
Ebt	269	304	418	434	1,425	435	443	440	426	1,744
Income Tax	55	107	146	152	460	152	155	154	149	610
Net Income (\$mm)										
Exploration and Production	260	267	286	311	1,124	302	303	303	297	1,206
Other	27	9	44	32	112	42	47	45	40	173
Unallocated	(73)	(78)	(59)	(61)	(271)	(61)	(62)	(62)	(60)	(245)
Total	214	198	271	282	965	283	288	286	277	1,134
Shares (millions)	465	460	460	460	461	460	460	460	460	460
Per share (\$)	0.46	0.43	0.59	0.61	2.09	0.61	0.63	0.62	0.60	2.46
Ebitda Margin	34%	30%	36%	36%	34%	33%	34%	34%	33%	33%
Tax Rate	20%	35%	35%	35%	32%	35%	35%	35%	35%	35%

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