Rating: Buy
S&P 500: 1210

Suncor Energy Inc.
Fire Tests Patience

Symbol	SU	*Ebitda Next Twelve Months ending 3/31/06 (US$mm)*	2,300
Rating	Buy	*North American Natural Gas/Ebitda (%)*	9
Price (US$/sh)	37.79	*Natural Gas and Oil Production/Ebitda (%)*	85
Pricing Date	3/1/05	*Adjusted Reserves/Production NTM*	18.2
Shares (mm)	460	*EV/Ebitda*	8.8
Market Capitalization (US$mm)	17,400	*PV/Ebitda*	12.0
Debt (US$mm)	2,600	*Undeveloped Reserves (%)*	1
Enterprise Value (EV) (US$mm)	20,000	*Natural Gas and Oil Ebitda (US$/boe)*	24.40
Present Value (PV) (US$mm)	27,500	*Present Value Proven Reserves(US$/boe)*	16.12
Net Present Value (US$/share)	54	*Present Value Proven Reserves(US$/mcfe)*	2.69
Debt/Present Value	0.10	*Earnings Next Twelve Months (US$/sh)*	1.67
McDep Ratio - EV/PV	0.73	*Price/Earnings Next Twelve Months*	23
Dividend Yield (%/year)	0.5	*Indicated Annual Dividend (US$/sh)*	0.19

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

The long-term value remains attractive in Buy-recommended **Suncor (SU)**, but investors need to be patient after a fire shut down half of the company's oil production in January. The first full quarter of normal volume may not be until the fourth quarter of 2005. Presuming no lasting impairment, we raised our estimate of net present value to US$54 a share from US$42 on January 26, 2005 when we revised our estimate of long-term oil price to $40 a barrel constant real from $35. The new estimate is reasonably consistent with our valuation of neighboring oil sands plant, Syncrude, owned by other buy-recommended companies and a trust. Because of the fire and its aftermath there may be a delay in realizing potential appreciation of 43% to our new estimate of net present value.

Natural Gas and Downstream Support Oil Production

Suncor consumes natural gas in oil production in an amount more than half the natural gas it produces. 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 (see table <u>Functional Cash Flow and Present Value</u>).

Oil resources account for the dominant portion of value. NTM Ebitda, Adjusted R/P and PV/Ebitda are not meaningful measures for oil for the year ahead because of the temporary shutdown of half the oil sands upgrading facility.

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.

Suncor
Functional Cash Flow and Present Value

	NTM Ebitda (US$mm)	Adjusted R/P	PV/ Ebitda	Present Value (US$mm)	
North American Natural Gas	210	7.6	5.7	1,200	4%
Oil	1,720	20.0	14.1	24,200	88%
Downstream	350		6.0	2,100	8%
	2,280	18.2	12.1	27,500	100%
Debt (US$mm)					2,600
Net Present Value (US$mm)					24,900
Shares (mm)					460
Net Present Value (US$/sh)					54

The value of oil production of US$24.2 billion seems consistent with our value of the other large nearby oil sands facility, Syncrude, of US$28.5 billion. The two plants both produce near 240,000 barrels daily. Syncrude is nearing completion of a 50% expansion while a similar expansion for Suncor is in the early stages. The product of Syncrude is more highly refined at the mine than is the case for Suncor.

Cash Flow Penalized by Fire

Results in the first three quarters of 2005 may not provide much indication of long-term value (see table Next Twelve Months Operating and Financial Estimates). Management expects production to be restored during the third quarter. Allowing for slippage in that expectation, we project volumes at half the normal level through the third quarter.

Skipping past the next few quarters we see cash flow generation of C$941 million in the fourth quarter of 2005. Annualize that to C$3800 per year and convert it to US$3100 million. After subtracting natural gas and downstream, the oil portion is about US$2600. Cash flow multiple, PV/Ebitda, becomes 9.3 times for oil. That is close to the current correlation of cash flow multiple with adjusted reserve life for 26 companies and should be roughly consistent with a long term price of oil of $40 a barrel for the benchmark grade.

Accident Illustrates Operating Risk

Whether it is space travel, nuclear power, airport security or any other human activity, accidents happen. Suncor's misfortune was the failure of a pipe connected to the main refining vessel in one of two trains of processing equipment. Operating at some of the highest temperatures in the plant and the acidic conditions of high sulfur content in the oil stream, the pipe failed as a result of unexpectedly rapid corrosion. In a surprisingly frank statement, management pointed out that the stainless steel inner layer that would have resisted corrosion was not present in the failed pipe. Like the leaks in Boston's Big Dig, the flaw seems to reflect the use of substandard material and the failure of inspection during construction.

Suncor has insurance to cover the accident and the loss of normal business profit. The timing appears subject to a minimum delay and the amount of reimbursement subject to a deductible amount. The determination of reimbursable loss is subject to negotiation and the ability to acquire insurance on the same terms in the future is doubtful.

Suncor
Next Twelve Months Operations
(Canadian Dollars)

	Q3 9/30/04	*Q4 12/31/04*	***Year 2004***	*Q1E 3/31/05*	*Q2E 6/30/05*	*Q3E 9/30/05*	*Q4E 12/31/05*	***Year 2005E***	*Q1E 3/31/06*	***Next Twelve Months 3/31/06***
Volume										
Natural Gas (mmcfd)	201	193	**200**	193	193	193	193	**193**	193	**193**
Oil (mbd)	230	237	**230**	120	120	120	240	**150**	260	**185**
Total gas & oil (bcf)	145	148	**576**	82	83	84	150	**399**	158	**475**
Total gas & oil (mbd))	264	269	**263**	152	152	152	272	**182**	292	**217**
Price										
Natural gas ($/mcf)										
Henry Hub ($/mmbtu)	5.75	7.10	**6.15**	6.25	6.80	6.94	7.34	**6.83**	7.84	**7.23**
Currency (US$/C$)	0.77	0.82	**0.77**	0.81	0.81	0.81	0.81	**0.81**	0.81	**0.81**
Henry Hub (C$/mmbtu)	7.47	8.66	**7.96**	7.71	8.39	8.56	9.05	**8.43**	9.67	**8.92**
U.S. (or North America)	6.53	6.98	**6.72**	6.22	6.76	6.90	7.29	**6.80**	7.80	**7.19**
Oil ($/bbl)										
WTI Cushing	43.89	48.30	**41.44**	48.57	51.91	51.48	50.22	**50.55**	48.94	**50.64**
WTI Cushing (C$/bbl)	57.01	58.92	**53.61**	59.89	64.02	63.49	61.93	**62.33**	60.36	**62.45**
Company	52.61	54.31	**49.75**	55.20	59.01	58.52	57.08	**57.38**	55.63	**57.13**
Total gas & oil ($/mcf)	8.48	8.80	**8.09**	8.57	9.19	9.15	9.25	**9.08**	9.11	**9.17**
NY Harbor 3-2-1 ($/bbl)	7.83	5.57	**8.39**	5.44	7.81	7.48	6.75	**6.87**	6.10	**7.04**
Revenue ($mm)										
Natural Gas	121	124	**491**	108	119	122	130	**479**	135	**506**
Oil	1,113	1,182	**4,171**	596	644	646	1,260	**3,147**	1,302	**3,853**
Other	1,081	1,004	**3,959**	1,004	1,004	1,004	1,004	**4,016**	1,004	**4,016**
Total	2,315	2,310	**8,621**	1,708	1,767	1,773	2,394	**7,642**	2,441	**8,375**
Expense										
Fixed	253	269	**983**	269	269	269	269	**1,076**	269	**840**
Variable	253	269	**983**	145	157	158	286	**747**	296	**703**
Other	986	909	**3,699**	1,324	1,316	1,320	1,453	**5,414**	1,468	**6,604**
Ebitda ($mm)										
Exploration and Production	728	768	**2,695**	290	337	341	834	**1,802**	872	**2,384**
Other	95	95	**277**	94	114	112	106	**426**	101	**433**
Total Ebitda	823	863	**2,955**	384	451	453	941	**2,228**	973	**2,817**
Exploration	10	7	**55**	7	10	10	10	**37**	10	**40**
Deprec., Deplet., & Amort.	183	183	**717**	183	183	183	183	**732**	183	**732**
Hedging	181	208	**624**	103	118	117	114	**452**	105	**454**
Ebit	449	464	**1,559**	91	140	142	633	**1,007**	676	**1,591**
Interest	32	33	**137**	33	33	33	33	**130**	33	**130**
Ebt	418	432	**1,422**	58	108	110	601	**876**	643	**1,461**
Income Tax	146	151	**459**	20	38	38	210	**307**	225	**511**
Net Income ($mm)										**-**
Exploration and Production	286	297	**1,110**	34	62	63	409	**567**	442	**975**
Other	44	34	**114**	11	21	21	52	**104**	51	**145**
Unallocated	(59)	(50)	**(260)**	(7)	(13)	(13)	(70)	**(102)**	(75)	**(171)**
Total	271	281	**964**	38	70	71	390	**569**	418	**950**
Shares (millions)	460	460	**461**	460	460	460	460	**460**	460	**460**
Per share ($)	0.59	0.61	**2.09**	0.08	0.15	0.16	0.85	**1.24**	0.91	**2.06**
Ebitda Margin	36%	37%	**34%**	22%	26%	26%	39%	**29%**	40%	**34%**
Tax Rate	35%	35%	**32%**	35%	35%	35%	35%	**35%**	35%	**35%**

Buy Oil and Gas Producers at Mid Decade

Suncor appears to have attractive appreciation potential along with producer/refiner peers (see table Rank by McDep Ratio). SU's reserves would last practically indefinitely and should be worth a high multiple of normal cash flow after operations are restored.

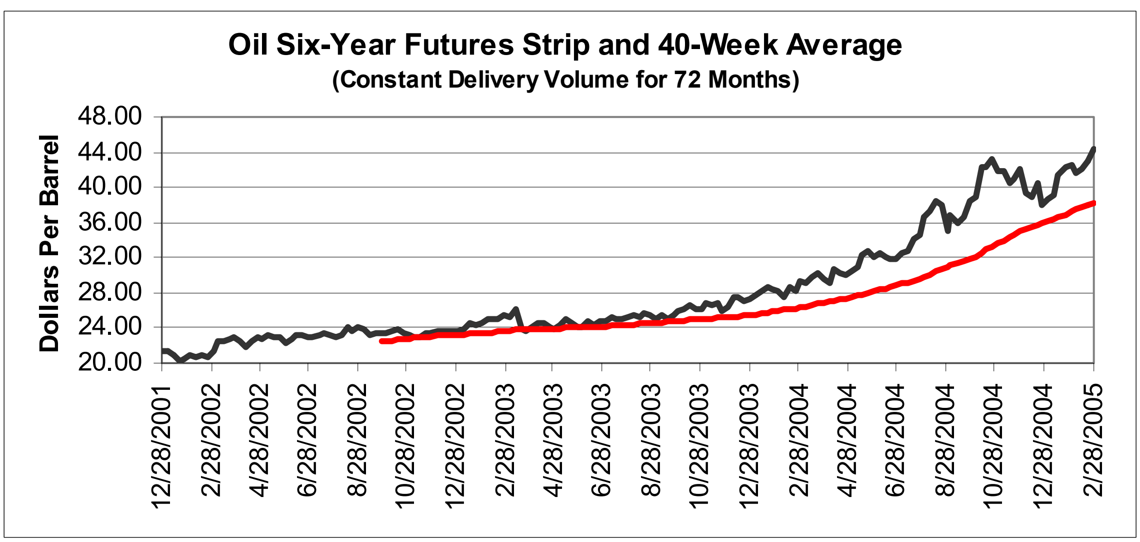
Oil and Gas Producers
Rank by McDep Ratio: Market Cap and Debt to Present Value

	Symbol/	Rating	Price ($/sh) 1-Mar 2005	Shares (mm)	Market Cap ($mm)	Net Present Value ($/sh)	Debt/ Present Value	McDep Ratio
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	79.75	125	9,970	20.00	0.74	1.78
Imperial Oil Limited (30%)	IMO	B	72.34	105	7,630	64.00	0.11	1.12
Marathon Oil Corporation	MRO	B	46.80	347	16,260	42.00	0.30	1.08
ConocoPhillips	COP	B	108.50	706	76,600	128.00	0.22	0.88
Norsk Hydro ASA	NHY	B	84.75	254	21,540	101.00	0.16	0.86
Petro-Canada	PCZ	B	56.12	264	14,820	70.00	0.17	0.84
Suncor Energy	SU	B	37.79	460	17,380	54.00	0.10	0.73
PetroChina Company Ltd (10%)	PTR	B	62.12	176	10,920	94.00	0.05	0.68
Lukoil Oil Company	LUKOY	B	137.00	209	29,000	208.00	0.03	0.67
Total or Median					*204,000*		*0.16*	*0.86*

B = Buy, S2 = Short half unlevered position, S3 = Short quarter unlevered position
McDep Ratio = **M**arket **c**ap and **De**bt to **p**resent value of oil and gas and other businesses

The interruption of production at Suncor also calls attention to the interdependence of the world energy economy. Oil sands in Canada appear to be one of the most promising alternatives to maturing Middle East supplies. Yet, the loss of Suncor production contributes further tightness to the current oil supply/demand situation. Longer term, the event reminds us of the difficulty of tapping new supplies with large facilities where the occasional mistake can be costly.

Ultimately the oil outlook gets reflected in price. By analogy with the previous cycle from 1964 to 1992 there may be three to five-fold gain potential remaining for oil and gas price over the next 5 to 13 years. In any event, a multi-year uptrend in the futures price of oil for continuous delivery over the next six years appears to be underway (see chart Oil Six-Year Futures Strip and 40 Week Average).



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