

Rating: Buy
S&P 500: 1189

Suncor Energy Inc. **Syncrude Sister**

<i>Symbol</i>	SU	<i>Ebitda Next Twelve Months ending 6/30/06 (US\$m)</i>	2,700
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	8
<i>Price (US\$/sh)</i>	36.14	<i>Natural Gas and Oil Production/Ebitda (%)</i>	90
<i>Pricing Date</i>	5/20/05	<i>Adjusted Reserves/Production NTM</i>	20.1
<i>Shares (mm)</i>	461	<i>EV/Ebitda</i>	7.3
<i>Market Capitalization (US\$m)</i>	16,700	<i>PV/Ebitda</i>	10.3
<i>Debt (US\$m)</i>	2,800	<i>Undeveloped Reserves (%)</i>	1
<i>Enterprise Value (EV) (US\$m)</i>	19,500	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	25.70
<i>Present Value (PV) (US\$m)</i>	27,700	<i>Present Value Proven Reserves(US\$/boe)</i>	13.62
<i>Net Present Value (US\$/share)</i>	54	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.27
<i>Debt/Present Value</i>	0.10	<i>Earnings Next Twelve Months (US\$/sh)</i>	2.33
<i>McDep Ratio - EV/PV</i>	0.70	<i>Price/Earnings Next Twelve Months</i>	16
<i>Dividend Yield (%/year)</i>	0.5	<i>Indicated Annual Dividend (US\$/sh)</i>	0.19

Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.

Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

Summary and Recommendation

Concentrated on growing oil production that can last practically indefinitely, buy-recommended **Suncor (SU)** offers unusual long-term appeal, but investors need to be patient while repairs continue after a fire shut down almost half of the company's oil production in January. Normal volume may not be restored until the fourth quarter of 2005. Presuming no lasting impairment, we value all of Suncor at practically the same value as Syncrude, the neighboring oil sands plant of similar size with similar history and prospects. Suncor shares accumulated by investors while current volume is down have potential appreciation of 49% to our estimate of net present value.

Suncor and Syncrude, Oil Sands Sisters

The total present value of Suncor from which we subtract debt and divide by the number of shares to get net present value is currently about US\$27.7 billion. Our estimate of the present value of Syncrude, owned 35.5% by **Canadian Oil Sands Trust (COSWF)**, 25% by **Imperial Oil (IMO)**, 12% by **Petro-Canada (PCZ)**, and 9% by **ConocoPhillips (COP)** among others is US\$29 billion.

Suncor sold about 148,000 barrels daily (bd) in the first quarter of 2005 while Syncrude produced 157,000 bd. Suncor will likely not be near capacity of 250,000 bd until the fourth quarter while Syncrude is back near that level now. Suncor has begun expansion to achieve 350,000 bd for the full year 2009. Syncrude has finished most of the spending to achieve 350,000 bd for the full year 2007.

Both plants produce a light, sweet product that is protected from wide discounts for heavy, sour crude oil. Suncor has upgrading at the mine and in its refineries in Ontario and Colorado. Syncrude does all of its upgrading on site.

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Suncor owns natural gas reserves, while Syncrude does not. Suncor's incremental raw material comes from an in situ process that requires more natural gas. Syncrude's incremental raw material comes from a surface mine.

As a result, the oil sands sisters seem to be worth a similar amount. In each case, present value corresponds to a long-term oil price of \$40 a barrel and a 7% per year real return. As it turns out the stock market values Suncor at a McDep Ratio of 0.70 currently compared to 0.69 for Syncrude as represented in the stock of COSWF whose only asset is its share of Syncrude.

Natural Gas and Downstream Support Oil Sands

Natural gas production can be valued separately though more than half is consumed in oil sands (see table [Functional Cash Flow and Present Value](#)). Similarly, downstream operations can be valued separately though integrated with oil sands.

Suncor					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<u>(US\$mm)</u>	<u>R/P</u>	<u>Ebitda</u>	<u>Value</u>	
				<u>(US\$mm)</u>	
North American Natural Gas	210	8.4	6.2	1,300	5%
Oil	2,210	21.3	11.0	24,300	88%
Downstream	260		8.1	2,100	8%
	2,680	20.1	10.3	27,700	100%
Debt (US\$mm)					2,800
Net Present Value (US\$mm)					24,900
Shares (mm)					461
Net Present Value (US\$/sh)					54

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 Operations](#)). Management expects production to be restored at the end of the third quarter. We project volumes below the normal level through the third quarter.

Cash flow multiple, PV/Ebitda, of 11.0 times for oil and 8.1 times for downstream are above the current correlation for 30 companies. The denominator includes cash expected to be generated in the third quarter of 2005 when operations will still be below normal.

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. Suncor has insurance to cover the accident and the loss of normal business profit. The timing

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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)										
	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Next</i>
	<i>12/31/04</i>	<i>2004</i>	<i>3/31/05</i>	<i>6/30/05</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005E</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>Twelve</i>
										<i>Months</i>
										<i>6/30/06</i>
Volume										
Natural Gas (mmcf)	193	200	191	189	187	185	188	183	182	184
Oil (mbd)	237	230	148	148	148	240	171	260	260	227
Total gas & oil (bcf)	148	576	97	98	99	150	443	157	158	564
Total gas & oil (mbd)	269	263	180	179	179	271	202	291	290	257
Price										
Natural gas (\$/mcf)										
Henry Hub (\$/mmbtu)	7.10	6.15	6.27	6.83	6.48	7.07	6.66	7.83	6.80	7.04
Currency (US\$/C\$)	0.82	0.77	0.82	0.79	0.79	0.79	0.80	0.79	0.79	0.79
Henry Hub (C\$/mmbtu)	8.66	7.96	7.64	8.65	8.20	8.95	8.36	9.91	8.61	8.92
U.S. (or North America)	6.98	6.72	6.74	7.63	7.23	7.90	7.37	8.74	7.59	7.86
Oil (\$/bbl)										
WTI Cushing	48.31	41.44	49.65	49.78	49.77	50.85	50.01	50.95	50.64	50.55
WTI Cushing (C\$/bbl)	58.94	53.61	60.55	63.02	63.00	64.38	62.74	64.50	64.11	64.00
Company	54.31	49.75	54.51	56.73	56.72	57.95	56.68	58.06	57.71	57.71
Total gas & oil (\$/mcf)	8.80	8.09	8.67	9.13	9.07	9.46	9.13	9.58	9.41	9.41
NY Harbor 3-2-1 (\$/bbl)	5.72	7.74	6.17	11.44	9.96	6.95	8.63	7.43	9.76	8.53
Revenue (\$mm)										
Natural Gas	124	491	116	131	125	135	506	144	126	529
Oil	1,182	4,171	726	764	772	1,280	3,540	1,359	1,366	4,775
Other	1,004	3,959	1,220	1,220	1,220	1,220	4,878	1,220	1,220	4,878
Total	2,310	8,621	2,061	2,114	2,116	2,634	8,925	2,723	2,711	10,183
Expense (\$mm)										
Fixed	269	983	197	197	197	269	860	269	269	768
Variable	269	983	197	209	210	331	947	352	349	754
Other	909	3,699	1,200	1,598	1,601	1,725	6,124	1,742	1,724	6,885
Ebitda (\$mm)										
Exploration and Production	768	2,695	448	489	490	814	2,240	882	873	3,059
Other	95	277	19	27	26	95	167	98	114	333
Total Ebitda	863	2,955	467	516	515	909	2,407	981	987	3,392
Exploration	7	55	17	10	10	10	47	10	10	40
Deprec., Deplet., & Amort.	183	717	165	165	165	165	660	165	165	660
Hedging	208	624	100	112	113	116	441	116	116	460
Ebit	464	1,559	185	229	227	619	1,260	690	696	2,232
Interest	33	137	36	36	36	36	144	36	36	144
Ebt	432	1,422	149	193	191	583	1,116	654	660	2,088
Income Tax	151	459	52	68	67	204	391	229	231	731
Net Income (\$mm)										
Exploration and Production	297	1,110	143	179	178	511	1,012	577	573	1,839
Other	34	114	3	10	9	60	82	64	75	208
Unallocated	(50)	(260)	(49)	(64)	(63)	(192)	(368)	(216)	(218)	(689)
Total	281	964	97	125	124	379	725	425	429	1,357
Shares (millions)										
Per share (\$)	0.61	2.09	0.21	0.27	0.27	0.82	1.57	0.92	0.93	2.94
Ebitda Margin	37%	34%	23%	24%	24%	35%	27%	36%	36%	33%
Tax Rate	35%	32%	35%	35%	35%	35%	35%	35%	35%	35%

Buy Oil and Gas Producers at Mid Decade

Multi-fold gain potential for oil and gas price over the years ahead justifies investment in recommended oil and gas producers, in our opinion. The current benchmark oil average futures price for the next six years is about US\$48 a barrel. That level defines an uptrend as it is higher

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than the 40-week average of the 72-month quote of about \$43. A McDep Ratio of 1.0 implies that a stock would be priced at present value assuming a constant real oil price of US\$40 (see table [Rank by McDep Ratio](#)).

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

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 20-May 2005</i>	<i>Shares (mm)</i>	<i>Market Cap (\$mm)</i>	<i>Net Present Value (\$/sh)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>
Producer/Refiners - Large Cap and Mid Cap							
Kinder Morgan, Inc.	KMI S2	75.97	125	9,500	20.00	0.74	1.74
Marathon Oil Corporation	MRO B	46.22	349	16,110	42.00	0.30	1.07
Imperial Oil Limited (30%)	IMO B	67.16	105	7,040	64.00	0.10	1.04
Petro-Canada	PCZ B	53.80	263	14,170	70.00	0.19	0.81
Norsk Hydro ASA	NHY B	78.01	252	19,680	101.00	0.16	0.81
ConocoPhillips	COP B	101.11	710	71,800	140.00	0.21	0.78
Suncor Energy	SU B	36.14	461	16,660	54.00	0.10	0.70
PetroChina Company Ltd (10%)	PTR B	62.11	176	10,920	94.00	0.05	0.68
Lukoil Oil Company	LUKOY B	33.25	834	28,000	52.00	0.03	0.65
<i>Total or Median</i>				<i>194,000</i>		<i>0.16</i>	<i>0.81</i>

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