

Rating: Buy
 S&P 500: 1179

Suncor Energy Up and Running Again

<i>Symbol</i>	SU	<i>Ebitda Next Twelve Months ending 9/30/06 (US\$m)</i>	3,800
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	10
<i>Price (US\$/sh)</i>	52.05	<i>Natural Gas and Oil Production/Ebitda (%)</i>	90
<i>Pricing Date</i>	10/27/05	<i>Adjusted Reserves/Production NTM</i>	17.9
<i>Shares (mm)</i>	461	<i>EV/Ebitda</i>	7.3
<i>Market Capitalization (US\$m)</i>	24,000	<i>PV/Ebitda</i>	9.3
<i>Debt (US\$m)</i>	3,800	<i>Undeveloped Reserves (%)</i>	1
<i>Enterprise Value (EV) (US\$m)</i>	27,800	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	32.70
<i>Present Value (PV) (US\$m)</i>	35,200	<i>Present Value Proven Reserves(US\$/boe)</i>	17.37
<i>Net Present Value (US\$/share)</i>	68	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.89
<i>Debt/Present Value</i>	0.11	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.44
<i>McDep Ratio - EV/PV</i>	0.79	<i>Price/Earnings Next Twelve Months</i>	15
<i>Dividend Yield (%/year)</i>	0.4	<i>Indicated Annual Dividend (US\$/sh)</i>	0.20

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

Buy-recommended **Suncor (SU)** offers 31% appreciation potential to estimated net present value of \$68 a share. Taking account of latest quarterly results, our correlation of 30 companies indicates net present value about \$3 a share lower than estimated. The company is in the midst of restoring normal production after being curtailed for some nine months as a result of a fire. As the company rebuilds volume it also proceeds on an expansion to take the capacity of its oil sands plant to 350,000 barrel daily by 2009.

Cash Flow and Reserve Life Point to Present Value

McDep analysis presumes that fundamental value is measured by the projection of cash flows far into the future and discounting them to the present at a rate of return, currently 7% a year before inflation. Next Twelve Months (NTM) cash flow represents the volumes and costs that form the base for future projections. Reserve life index tells how long cash flow will last. NTM cash flow and reserve life are the two main variables in our correlation by function for about 30 companies. Net present value indicated by the current combined correlation is about \$3 a share lower than our ongoing standard estimate for the company (see table [Functional Cash Flow and Present Value](#)). The correlation is a statistical check that misses some of the value of full operation and the expansion of Suncor's oil sands plant.

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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	360	7.7	4.4	1,600	5%
Oil	3,080	18.9	10.2	31,300	89%
Downstream	360		6.4	2,300	7%
	3,800	17.9	9.3	35,200	100%
Debt (US\$mm)					3,800
Net Present Value (US\$mm)					31,400
Shares (mm)					461
Net Present Value (US\$/sh)					68
Over (-)/ Under (+) Correlation (US\$/sh)					(3)

Cash Flow by Quarter Depends on Latest Results and Futures Prices

Cash flow for the next year is projected from a base through the latest reported quarter (see table Next Twelve Months Operating and Financial Estimates). Company disclosures provide the clues for future volumes and costs as well as geographic and quality differences in price. Futures prices from the New York Mercantile Exchange determine industry benchmarks for the next year.

Industry Conditions Support Long-Term Price Expectation

Present value estimates that form the denominator of the McDep Ratio and change only occasionally for all companies, most recently in early August, are tied to expected constant real long-term prices. Recent futures price for oil delivered over the next six years at \$58 a barrel exceeds our long-term expectation of \$50. One-year futures for natural gas exceed our long-term expectation while six-year futures for natural gas also have appreciation potential, in our opinion.

Oil and Gas Commodity and Stock Price
Thursday, October 27, 2005

	<i>Units</i>	<i>Futures Price</i>		<i>McDep Ratio</i>
		<i>Six-Year</i>	<i>One-Year</i>	<i>Denominator</i>
Crude Oil	\$/barrel	58.13	62.00	50
Natural Gas	\$/million btu	8.65	11.96	10
Oil Refining	\$/barrel		12.41	10
	<i>Stocks</i>			<i>Median</i>
	Producer/Refiner			<i>McDep Ratio</i>
	SU			0.80
				0.79

Source: McDep Associates, Bloomberg, New York Mercantile Exchange, Yahoo and company disclosures

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Suncor
Next Twelve Months Operations
 (Canadian Dollars)

	<i>Q4</i>	<i>Year</i>	<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>Next Twelve Months</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>9/30/06</i>	<i>9/30/06</i>
Volume											
Natural Gas (mmcf)	193	200	191	175	200	200	192	200	200	200	200
Oil (mbd)	237	230	148	124	147	240	165	260	260	260	255
Total gas & oil (bcf)	148	576	97	84	100	151	431	158	160	162	631
Total gas & oil (mbd)	269	263	180	153	181	273	197	293	293	293	288
Price											
Natural gas (\$/mcf)											
Henry Hub (\$/mmbtu)	7.10	6.15	6.27	6.76	8.56	13.83	8.85	13.80	10.66	10.64	12.23
Currency (US\$/C\$)	0.82	0.77	0.82	0.80	0.83	0.85	0.83	0.85	0.85	0.85	0.85
Henry Hub (C\$/mmbtu)	8.66	7.96	7.64	8.40	10.29	16.21	10.64	16.17	12.50	12.47	14.34
U.S. (or North America)	6.98	6.72	6.74	7.26	8.34	13.13	8.96	13.11	10.13	10.11	11.61
Oil (\$/bbl)											
WTI Cushing	48.31	41.44	49.65	53.05	62.52	61.68	56.73	62.03	62.24	62.20	62.03
WTI Cushing (C\$/bbl)	58.94	53.61	60.55	65.99	75.14	72.30	68.50	72.71	72.95	72.91	72.72
Company	54.31	49.75	54.51	57.21	67.78	65.21	61.92	65.58	65.81	65.76	65.60
Total gas & oil (\$/mcf)	8.80	8.09	8.67	9.10	10.75	11.14	10.10	11.18	10.87	10.86	11.01
NY Harbor 3-2-1 (\$/bbl)	5.72	7.74	6.17	10.59	16.70	11.73	11.30	12.23	13.62	12.83	12.60
Revenue (\$mm)											
Natural Gas	124	491	116	116	153	242	627	236	184	186	848
Oil	1,182	4,171	726	647	919	1,440	3,732	1,535	1,557	1,573	6,105
Other	1,004	3,959	1,220	1,617	2,069	2,069	6,976	2,069	2,069	2,069	8,277
Total	2,310	8,621	2,061	2,380	3,142	3,751	11,334	3,840	3,811	3,828	15,230
Expense (\$mm)											
Fixed	269	983	197	170	293	293	953	293	293	293	864
Variable	269	983	197	170	293	423	1,083	446	438	443	987
Other	909	3,699	1,200	1,531	1,914	2,679	7,325	2,701	2,694	2,702	7,986
Ebitda (\$mm)											
Exploration and Production	768	2,695	448	423	487	965	2,323	1,032	1,010	1,023	4,030
Other	95	277	19	86	155	107	367	107	107	103	423
Total Ebitda	863	2,955	467	509	642	1,072	2,690	1,138	1,117	1,127	4,453
Exploration	7	55	17	2	29	29	77	29	29	29	116
Deprec., Deplet., & Amort.	183	717	165	175	174	174	688	174	174	174	696
Hedging and Insurance	208	624	100	120	(53)	152	319	149	152	153	606
Ebit	464	1,559	185	212	492	717	1,606	786	762	771	3,036
Interest	33	137	36	42	45	45	167	45	45	45	179
Ebt	432	1,422	149	170	447	672	1,438	742	717	726	2,857
Income Tax	151	459	52	60	156	235	503	260	251	254	1,000
Net Income (\$mm)											
Exploration and Production	297	1,110	143	144	277	466	1,030	517	499	507	1,990
Other	34	114	3	36	67	51	157	53	53	51	209
Unallocated	(50)	(260)	(49)	(69)	(54)	(80)	(252)	(89)	(86)	(87)	(342)
Total	281	964	97	111	290	437	935	482	466	472	1,857
Shares (millions)	460	461	461	461	461	461	461	461	461	461	461
Per share (\$)	0.61	2.09	0.21	0.24	0.63	0.95	2.03	1.05	1.01	1.02	4.03
Ebitda Margin	37%	34%	23%	21%	20%	29%	24%	30%	29%	29%	29%
Tax Rate	35%	32%	35%	35%	35%	35%	35%	35%	35%	35%	35%

Buy Producer/Refiners

Energy is necessary for world economic growth and clean energy provides a better quality of life. Producer/refiners are among the leading global suppliers of clean energy. Headquartered in Norway, Russia, China, Canada and the U.S., buy recommendations also offer political diversification. McDep Ratios that compare Enterprise Value with Present Value of energy and other businesses imply that the stock market undervalues the fundamental prospects. Stocks are ranked in descending order of McDep Ratio connoting “buy low, sell high” (see table Rank by McDep Ratio).

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

	<i>Symbol/</i>		<i>Price</i>		<i>Market</i>	<i>Net</i>	<i>Debt/</i>	<i>McDep</i>
	<i>Rating</i>	<i>27-Oct</i>	<i>(\$/sh)</i>	<i>Shares</i>	<i>Cap</i>	<i>Present</i>	<i>Present</i>	<i>Ratio</i>
		<i>2005</i>		<i>(mm)</i>	<i>(\$mm)</i>	<i>Value</i>	<i>Value</i>	
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	87.78	123	10,800	20.00	0.76	1.82
Imperial Oil Limited (30%)	IMO	B	87.92	102	8,980	84.00	0.10	1.04
Marathon Oil Corporation	MRO	B	57.28	368	21,090	65.00	0.27	0.91
Petro-Canada	PCZ	B	34.95	525	18,360	42.00	0.19	0.86
Lukoil Oil Company	LUKOY	B	52.00	830	43,000	65.00	0.03	0.81
Suncor Energy	SU	B	52.05	461	24,000	68.00	0.11	0.79
Norsk Hydro ASA	NHY	B	97.21	251	24,390	130.00	0.12	0.78
ConocoPhillips	COP	B	60.90	1,418	86,400	100.00	0.15	0.67
Gazprom (50%)	OGZPF	B	57.40	1,022	58,600	90.00	0.03	0.65
PetroChina Company Ltd (10%)	PTR	B	74.58	176	13,110	120.00	0.01	0.63
					<i>309,000</i>		<i>0.11</i>	<i>0.80</i>

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