



Independent Stock Idea

October 29, 2008

rating: hold
s&p 500: 930

Suncor Energy (SU) Coping with Volatile Oil Price

<i>Symbol</i>	SU	<i>Ebitda Next Twelve Months ending 9/30/09 (US\$mm)</i>	4,400
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	22.53	<i>Natural Gas and Oil Production/Ebitda (%)</i>	90
<i>Pricing Date</i>	10/29/08	<i>Adjusted Reserves/Production NTM</i>	24.0
<i>Shares (mm)</i>	953	<i>EV/Ebitda</i>	6.2
<i>Market Capitalization (US\$mm)</i>	21,500	<i>PV/Ebitda</i>	13.2
<i>Debt (US\$mm)</i>	6,000	<i>Undeveloped Reserves (%)</i>	33
<i>Enterprise Value (EV) (US\$mm)</i>	27,500	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	36.00
<i>Present Value (PV) (US\$mm)</i>	58,400	<i>Present Value Proven Reserves(US\$/boe)</i>	19.56
<i>Net Present Value (US\$/share)</i>	55	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.26
<i>Debt/Present Value</i>	0.10	<i>Earnings Next Twelve Months (US\$/sh)</i>	2.19
<i>McDep Ratio - EV/PV</i>	0.47	<i>Price/Earnings Next Twelve Months</i>	10
<i>Dividend Yield (%/year)</i>	0.7	<i>Indicated Annual Dividend (US\$/sh)</i>	0.16
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.			
Estimated present value presumes a long-term price for oil of US\$75 a barrel and natural gas, \$10 a million btu.			
For historical analysis of SU since 2004 see www.mcdep.com/2su.htm			

Summary and Recommendation

Hold-rated **Suncor Energy (SU)** offers unlevered appreciation potential of 130% to estimated net present value (NPV) of \$55 a share. On October 28 we reset NPV from \$75 a share on the basis of a long-term oil price assumption of \$75 a barrel, down from \$100. Patience may be necessary as SU stock price remains below the 200-day average of \$51. Released today, third quarter results displayed strength in unlevered cash flow (Ebitda) driven by higher crude oil and natural gas prices. Futures prices now look lower for the next four quarters (see table [Next Twelve Months Operating and Financial Estimates](#)). As a result of technical challenges and lower oil price, the timing of expected volume growth in two expansion projects has been delayed by a year or more. Expansion of current volume of about 250 thousand barrels daily (mbd) to 350 mbd may not be fully achieved until 2010. Expansion to 550 mbd may not be achieved until perhaps 2015. Most of the investment has been made for 350 mbd and most of the money is yet to be spent for 550 mbd. Meanwhile current operations throw off high cash flow, even at low oil price, and future spending can be limited to cash generated.

Kurt H. Wulff, CFA



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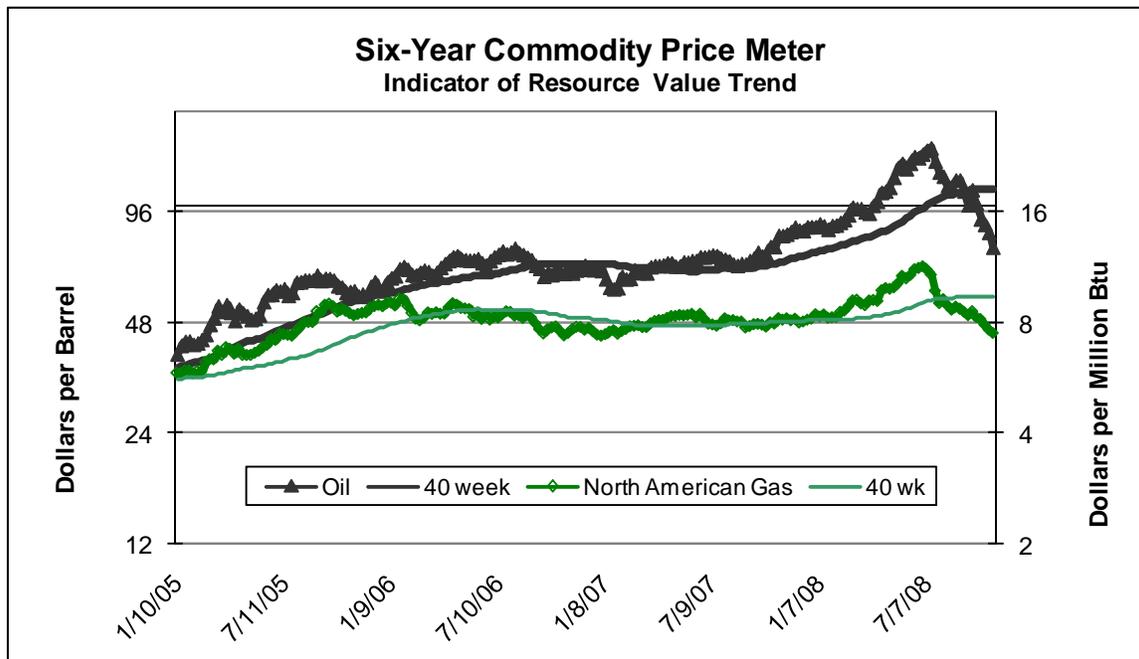
Suncor									
Next Twelve Months Operations									
(Canadian Dollars)									
									<i>Next</i>
	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Twelve</i>
	<i>9/30/07</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>2008E</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>Months</i>
Volume									
Natural Gas (mmcf)	193	205	197	197	203	197	197	197	197
Days	92	91	92	92	366	90	91	92	365
Oil (mbd)	227	185	222	240	224	260	280	300	270
Total gas & oil (bcf)	143	120	140	151	565	158	171	184	663
Total gas & oil (mbd))	259	219	254	273	258	293	313	333	303
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.16	10.93	10.25	6.65	8.96	6.65	6.67	6.97	6.73
Currency (US\$/C\$)	0.96	0.99	0.96	0.82	0.95	0.82	0.82	0.82	0.82
Henry Hub (C\$/mmbtu)	6.44	11.04	10.66	8.08	9.46	8.09	8.11	8.48	8.19
Company	5.14	9.62	9.10	6.90	8.23	6.90	6.92	7.23	6.99
Oil (\$/bbl)									
WTI Cushing	75.48	123.97	117.99	67.52	101.86	64.23	65.80	67.22	66.19
WTI Cushing (C\$/bbl)	78.95	125.23	122.77	82.09	107.12	78.09	80.00	81.73	80.48
Company	76.71	121.72	116.90	78.16	101.62	74.36	76.18	77.82	76.65
Total gas & oil (\$/mcf)	11.84	18.62	18.14	12.29	15.80	11.78	12.09	12.40	12.15
NY Harbor 3-2-1 (\$/bbl)	12.64	14.94	11.84	5.71	10.02	5.31	10.44	8.40	7.47
Revenue (\$mm)									
Natural Gas	91	179	165	125	608	122	124	131	503
Oil	1,602	2,048	2,383	1,726	8,323	1,740	1,941	2,148	7,554
Other	2,973	5,731	6,398	6,398	22,211	6,398	6,398	6,398	25,591
Total	4,666	7,959	8,946	8,249	31,142	8,260	8,463	8,677	33,648
Expense									
	3,341	6,315	7,053	7,124	24,972	6,938	7,017	7,177	28,255
Ebitda (\$mm)									
Exploration and Production	1,198	1,437	1,760	1,110	5,610	1,117	1,239	1,367	4,834
Other	127	207	133	14	559	205	207	133	559
Total Ebitda	1,325	1,644	1,893	1,125	6,169	1,322	1,446	1,500	5,393
Exploration	9	31	30	30	103	20	20	20	90
Deprec., Deplet., & Amort.	228	268	279	279	1,074	279	279	279	1,116
Ebit									
	1,088	1,345	1,584	816	4,992	1,023	1,147	1,201	4,187
Interest	50	69	74	74	279	74	74	74	296
Ebt									
	1,038	1,276	1,510	742	4,714	949	1,073	1,127	3,891
Income Tax	363	446	529	260	1,650	332	376	394	1,362
Net Income (\$mm)									
Exploration and Production	556	803	872	445	2,834	488	559	625	2,116
Other	40	91	46	6	238	89	93	61	249
Unallocated	79	(65)	64	31	(8)	40	45	47	164
Total	675	829	982	482	3,064	617	698	733	2,529
Shares (millions)									
	944	953	953	953	951	953	953	953	953
Per share (\$)	0.72	0.87	1.03	0.51	3.22	0.65	0.73	0.77	2.65
Ebitda Margin (E&P)	71%	65%	69%	60%	63%	60%	60%	60%	60%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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Suncor					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
North American Natural Gas	210	7.8	8.1	1,700	3%
Oil	3,770	25.6	14.3	53,800	92%
Downstream	460		6.5	3,000	5%
	4,440	24.0	13.2	58,500	100%
Debt (US\$mm)					6,100
Net Present Value (US\$mm)					52,400
Shares (mm)					953
Net Present Value - Standard Estimate (US\$/sh)					55





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