



Independent Stock Idea

July 22, 2009

rating: buy
s&p 500: 955

Suncor Energy (SU) Merger with Petro-Canada to be Effective August 1

<i>Symbol</i>	SU	<i>Ebitda Next Twelve Months ending 6/30/10 (US\$mm)</i>	9,100
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	7
<i>Price (US\$/sh)</i>	32.71	<i>Natural Gas and Oil Production/Ebitda (%)</i>	87
<i>Pricing Date</i>	7/21/09	<i>Adjusted Reserves/Production NTM</i>	12.0
<i>Shares (mm) - Pro-Forma</i>	1565	<i>EV/Ebitda</i>	7.5
<i>Market Capitalization (US\$mm)</i>	51,200	<i>PV/Ebitda</i>	10.8
<i>Debt (US\$mm)</i>	16,700	<i>Undeveloped Reserves (%)</i>	30
<i>Enterprise Value (EV) (US\$mm)</i>	67,900	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	31.45
<i>Present Value (PV) (US\$mm)</i>	98,100	<i>Present Value Proven Reserves(US\$/boe)</i>	27.72
<i>Net Present Value (US\$/share)</i>	52	<i>Present Value Proven Reserves(US\$/mcfe)</i>	4.62
<i>Debt/Present Value</i>	0.17	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.60
<i>McDep Ratio - EV/PV</i>	0.69	<i>Price/Earnings Next Twelve Months</i>	55
<i>Dividend Yield (%/year)</i>	0.6	<i>Indicated Annual Dividend (US\$/sh)</i>	0.18
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, \$8 a million btu.			
For historical analysis of SU since 2004 see www.mcdep.com/2su.htm			

Summary and Recommendation

Buy-recommended **Suncor Energy (SU)** offers unlevered appreciation potential of 44% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of \$52 a share. Valuation estimates presume the acquisition of Petro-Canada will be finalized on August 1 as announced with Suncor's second quarter results released today. Until then financial and operating detail are reported separately for each company. Suncor generated unlevered cash flow (Ebitda) of C\$946 million on the strength of a rising oil price and smooth operations. Yet, as is often the case in the last quarter before a major deal closes, the company reported non-operating charges that reduced earnings to a negative amount. It looks like results can build in future quarters with growing volume and price before taking account of the Petro-Canada deal (see table [Next Twelve Months Operating and Financial Estimates](#)). Those projections support our estimate of \$62 billion of Present Value for Suncor's integrated oil sands, natural gas and downstream operations (see table [Suncor - Functional Cash Flow and Present Value](#)). Next, we add the cash flow, reserve life and present value of Petro-Canada for a picture of the proposed new company, concentrated 86% on oil (see table [Suncor Pro Forma - Functional Cash Flow and Present Value](#)). Finally, oil futures prices for the next six years near US\$78 a barrel crossed the 40-week average at the end of May to resume an uptrend by that measure (see chart [Six-Year Commodity Price Meter](#)).

Kurt H. Wulff, CFA



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Suncor									
Next Twelve Months Operating and Financial Estimates									
(Canadian Dollars)									
									<i>Next Twelve Months</i>
	<i>Q2</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>6/30/10</i>
	<i>6/30/08</i>	<i>3/31/09</i>	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>2009E</i>	<i>3/31/10</i>	<i>6/30/10</i>	<i>6/30/10</i>
Volume									
Natural Gas (mmcf)	205	200	192	192	192	194	192	192	192
Days	91	90	91	92	92	365	90	91	365
Oil (mbd)	185	247	289	300	320	289	320	320	315
Total gas & oil (bcf)	120	151	175	183	194	704	190	192	760
Total gas & oil (mbd)	219	280	321	332	352	321	352	352	347
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	10.93	4.90	3.50	3.54	4.29	4.06	5.27	5.26	4.59
Currency (US\$/C\$)	0.99	0.80	0.86	0.91	0.91	0.86	0.91	0.91	0.91
Henry Hub (C\$/mmbtu)	11.04	6.09	4.08	3.91	4.74	4.70	5.82	5.80	5.07
Company	9.62	5.61	3.52	3.38	4.09	4.16	5.02	5.01	4.37
Oil (\$/bbl)									
WTI Cushing	123.97	42.96	59.52	61.12	62.53	56.53	64.78	66.32	63.69
WTI Cushing (C\$/bbl)	125.23	53.43	69.38	67.49	69.05	64.84	71.53	73.23	70.33
Company	121.72	52.61	63.54	61.81	63.24	60.71	65.51	68.57	64.82
Total gas & oil (\$/mcf)	18.62	8.39	9.89	9.63	9.95	9.52	10.38	10.84	10.21
NY Harbor 3-2-1 (\$/bbl)	14.94	9.18	9.49	8.85	4.32	7.96	4.26	7.37	6.20
Revenue (\$mm)									
Natural Gas	179	101	62	60	72	294	87	88	306
Oil	2,048	1,167	1,671	1,706	1,862	6,405	1,887	1,997	7,451
Other	5,731	3,546	3,326	3,326	3,326	13,524	3,326	3,326	13,304
Total	7,959	4,814	5,058	5,092	5,260	20,224	5,300	5,410	21,062
Expense									
	6,315	4,092	4,112	4,202	4,292	16,699	4,101	4,191	16,787
Ebitda (\$mm)									
Exploration and Production	1,437	514	818	819	930	3,082	992	1,091	3,832
Other	207	207	128	71	38	443	207	128	443
Total Ebitda	1,644	722	946	890	968	3,525	1,199	1,219	4,275
Exploration	31	7	32	32	32	103	20	20	104
Deprec., Deplet., & Amort.	268	302	340	340	340	1,322	340	340	1,360
Other			562			562			-
Ebit									
	1,345	413	12	518	596	1,538	839	859	2,811
Interest	69	64	99	99	99	361	99	99	396
Ebt									
	1,276	349	(87)	419	497	1,177	740	760	2,415
Income Tax	446	122	(31)	146	174	412	259	266	845
Net Income (\$mm)									
Exploration and Production	803	(120)	(335)						
Other	91	150	72						
Unallocated	(65)	197	206						
Total	829	227	(57)	272	323	765	481	494	1,570
Shares (millions)									
	953	944	947	947	947	946	947	947	947
Per share (\$)	0.87	0.24	(0.06)	0.29	0.34	0.81	0.51	0.52	1.66
Ebitda Margin (E&P)	65%	41%	47%	46%	48%	46%	50%	52%	49%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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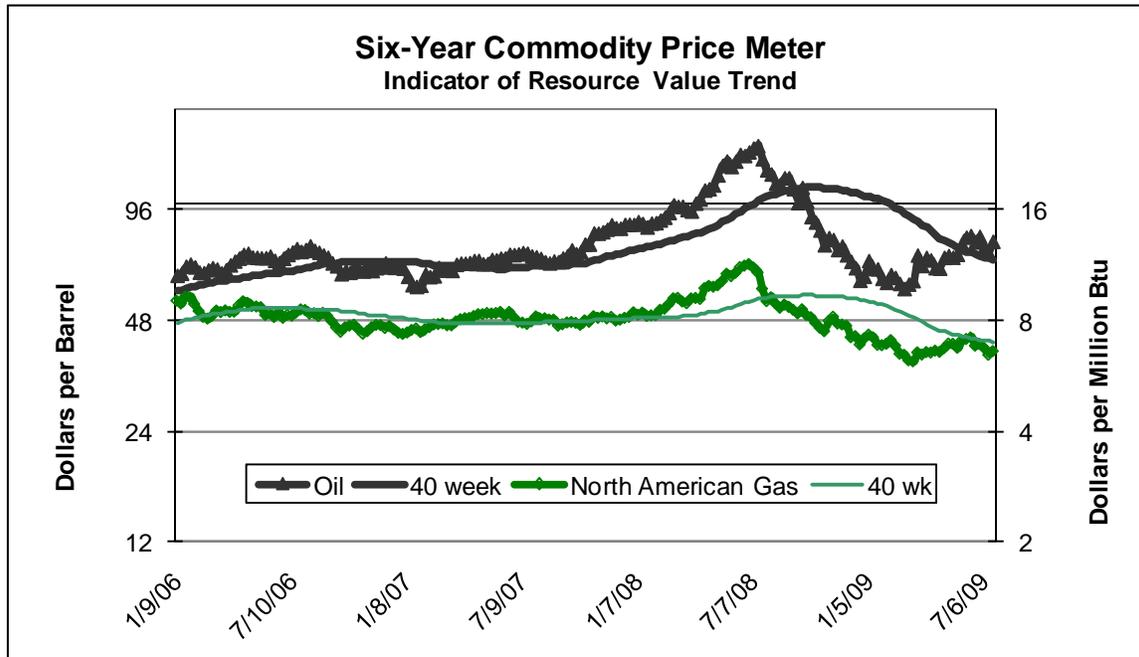
Suncor					
Functional Cash Flow and Present Value					
				<i>Present</i>	
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Value</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>(US\$mm)</i>	
North American Natural Gas	140	7.5	12.1	1,700	3%
Oil	3,330	18.3	17.7	58,900	94%
Downstream	400		5.0	2,000	3%
	3,870	17.4	16.2	62,600	100%
Debt (US\$mm)					10,500
Net Present Value (US\$mm)					52,100
Shares (mm)					947
Net Present Value - Standard Estimate (US\$/sh)					55

Suncor Pro-Forma					
Functional Cash Flow and Present Value					
				<i>Present</i>	
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Value</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>(US\$mm)</i>	
North American Natural Gas	562	6.1	10.9	6,100	6%
Rest of World Natural Gas	139	3.3	7.2	1,000	1%
Oil	7,319	13.5	11.5	84,000	86%
Downstream	1,080		6.5	7,000	7%
	9,100	12.0	10.8	98,100	100%
Debt (US\$mm)					16,700
Net Present Value (US\$mm)					81,400
Shares (mm)					1,565
Net Present Value - Standard Estimate (US\$/sh)					52



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Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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