



Independent Stock Idea

March 23, 2009

rating: hold
s&p 500: 769

Suncor Energy (SU)/Petro-Canada (PCZ) Suncor to Acquire Petro-Canada

<i>Symbol</i>	SU	<i>Ebitda Next Twelve Months ending 3/31/10 (US\$mm)</i>	6,800
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	6
<i>Price (US\$/sh) - Pro Forma</i>	22.70	<i>Natural Gas and Oil Production/Ebitda (%)</i>	
<i>Pricing Date</i>	3/20/09	<i>Adjusted Reserves/Production NTM</i>	13.7
<i>Shares (mm)</i>	1563	<i>EV/Ebitda</i>	7.3
<i>Market Capitalization (US\$mm)</i>	35,500	<i>PV/Ebitda</i>	14.0
<i>Debt (US\$mm)</i>	13,900	<i>Undeveloped Reserves (%)</i>	
<i>Enterprise Value (EV) (US\$mm)</i>	49,300	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	
<i>Present Value (PV) (US\$mm)</i>	94,800	<i>Present Value Proven Reserves(US\$/boe)</i>	
<i>Net Present Value (US\$/share)</i>	52	<i>Present Value Proven Reserves(US\$/mcf)</i>	
<i>Debt/Present Value</i>	0.15	<i>Earnings Next Twelve Months (US\$/sh)</i>	
<i>McDep Ratio - EV/PV</i>	0.52	<i>Price/Earnings Next Twelve Months</i>	19
<i>Dividend Yield (%/year)</i>	0.7	<i>Indicated Annual Dividend (US\$/sh)</i>	0.16
<i>Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.</i>			
<i>Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.</i>			
<i>Estimated present value presumes a long-term price for oil of US\$75 a barrel and natural gas, \$10 a million btu.</i>			
<i>For historical analysis of SU since 2004 see www.mcdep.com/2su.htm</i>			

Summary and Recommendation

Shareholders of hold-rated **Petro-Canada (PCZ)** are offered a stock price premium of a minimum 20% by hold-rated **Suncor Energy (SU)** to form Canada's largest oil and gas company. The new entity would offer attractive long-term value at a McDep Ratio of 0.52 and estimated Net Present Value of US\$52 a share, more than double pro forma stock price. Operating cost savings of C\$300 million annually eventually for the combined entity could offset half the 11% dilution incurred by shareholders of Suncor. Optimizing capital investment may further justify the dilution and enhance the premium. The largest owner of oil sands production and a leader in East Coast offshore oil, the new company would be concentrated 85% on the black gold (see Table 1). The pro forma price of new Suncor as of the close before the deal was announced was US\$22.70 a share (see Table 2). A price above or below that adjusted for general market change would signal for the most part how investors receive the deal. Petro-Canada holders may see reduced dividend yield if Suncor's current payout is not increased (see Table 3). Conforming to our idea that low McDep Ratio stocks can become targets, Petro-Canada had the second lowest McDep Ratio among large cap Canadian stocks in our coverage.

Kurt H. Wulff, CFA



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Geographic Domicile and Business Segments										
						<i>Present Value by Segment (%)</i>				
	<i>Symbol/Rating</i>	<i>Price (US\$/sh)</i>	<i>EV/Market</i>	<i>Enterprise Value (\$mm)</i>	<i>Natural Gas</i>	<i>Rest of World</i>	<i>Oil Prod'n</i>	<i>Down-stream</i>	<i>McDep Ratio</i>	
	B = Buy H = Hold	20-Mar 2009	Cap							
New Suncor pro forma	SU H	22.70	1.39	49,300	6	1	85	8	0.52	
Canada										
Imperial Oil Limited (30%)	IMO H	33.79	1.07	9,500	5		80	16	0.72	
Encana Corporation	ECA B	41.64	1.39	43,600	69		26	4	0.64	
Canadian Natural Resources	CNQ H	39.69	1.50	32,300	25		75	-	0.57	
Suncor Energy	SU H	25.29	1.35	32,100	3		92	5	0.53	
Petro-Canada	PCZ H	24.01	1.48	17,200	11	3	71	14	0.50	
Canadian Oil Sands Trust	COSWF B	19.25	1.12	10,400			100	-	0.49	
<i>Total or Median *</i>				<i>145,000</i>					<i>0.55</i>	

Net Present Value and McDep Ratio									
			<i>Price (US\$/sh)</i>			<i>Net Present Value (US\$/sh)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>	
	<i>Symbol/Rating</i>	<i>20-Mar 2009</i>	<i>Shares (mm)</i>	<i>Market Cap (US\$mm)</i>					
	B = Buy H = Hold								
New Suncor pro forma	H	22.70	1,563	35,470		51.80	0.15	0.52	
Canada									
Imperial Oil Limited (30%)	IMO H	33.79	262	8,840		48.00	0.05	0.72	
Encana Corporation	ECA B	41.64	751	31,300		75.00	0.18	0.64	
Canadian Natural Resources	CNQ H	39.69	541	21,500		85.00	0.19	0.57	
Suncor Energy	SU H	25.29	943	23,850		55.00	0.14	0.53	
Petro-Canada	PCZ H	24.01	484	11,620		60.00	0.16	0.50	
Canadian Oil Sands Trust	COSWF B	19.25	482	9,280		42.00	0.05	0.49	
<i>Total or Median</i>				<i>106,000</i>			<i>0.15</i>	<i>0.55</i>	
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses									
Estimated present value presumes a long-term price for oil of US\$75 a barrel and natural gas, \$10 a million btu.									



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Table 3								
Value Multiples and Distribution Yield								
			Price	Adjustd				Divd or
	Symbol/Rating		(US\$/sh)	Resrvs/	PV/	EV/		Distrib
	B = Buy	20-Mar	Prod	Ebitda	Ebitda	P/E	NTM	
	H = Hold	2009	NTM	NTM	NTM	NTM	NTM	(%)
New Suncor pro forma	SU	H	22.70	13.7	14.0	7.3	19	0.7
Canada								
Canadian Oil Sands Trust	COSWF	B	19.25	23.3	22.5	10.9	21	2.4
Imperial Oil Limited (30%)	IMO	H	33.79	19.1	14.4	10.4	19	0.9
Suncor Energy	SU	H	25.29	22.5	18.8	10.1	19	0.6
Canadian Natural Resources	CNQ	H	39.69	8.0	14.6	8.3	19	0.8
Encana Corporation	ECA	B	41.64	9.1	11.6	7.4	30	3.8
Petro-Canada	PCZ	H	24.01	6.9	9.6	4.8	19	2.7
	<i>Total or Median</i>			<i>14.1</i>	<i>14.5</i>	<i>9.2</i>	<i>19</i>	<i>1.7</i>
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2010; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								

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