

Rating: Buy
S&P 500: 1274

Suncor Energy

Raise Net Present Value to \$75 a Share

<i>Symbol</i>	SU	<i>Ebitda Next Twelve Months ending 12/31/06 (US\$m)</i>	5,200
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	76.40	<i>Natural Gas and Oil Production/Ebitda (%)</i>	90
<i>Pricing Date</i>	1/26/06	<i>Adjusted Reserves/Production NTM</i>	17.7
<i>Shares (mm)</i>	461	<i>EV/Ebitda</i>	7.5
<i>Market Capitalization (US\$m)</i>	35,200	<i>PV/Ebitda</i>	7.4
<i>Debt (US\$m)</i>	3,700	<i>Undeveloped Reserves (%)</i>	1
<i>Enterprise Value (EV) (US\$m)</i>	38,900	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	43.60
<i>Present Value (PV) (US\$m)</i>	38,200	<i>Present Value Proven Reserves(US\$/boe)</i>	18.76
<i>Net Present Value (US\$/share)</i>	75	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.13
<i>Debt/Present Value</i>	0.10	<i>Earnings Next Twelve Months (US\$/sh)</i>	5.13
<i>McDep Ratio - EV/PV</i>	1.02	<i>Price/Earnings Next Twelve Months</i>	15
<i>Dividend Yield (%/year)</i>	0.3	<i>Indicated Annual Dividend (US\$/sh)</i>	0.21

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.

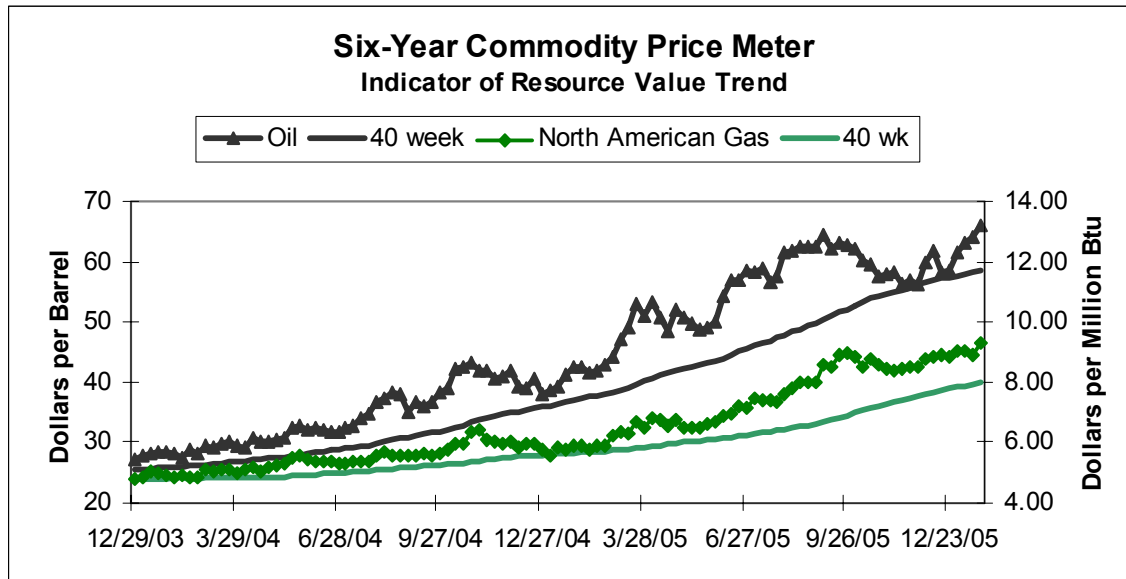
Summary and Recommendation

Volumes rebounded and costs were under control in the fourth quarter for Buy-recommended **Suncor (SU)** enough to encourage us to raise estimated net present value to \$75 a share from \$68. Though the stock is priced near present value, our estimates are tied to US\$50 oil. Suncor's relatively fixed cost gives it more leverage to higher value with higher oil price. The long life of the company's resources makes them more sensitive to small changes in confidence or rate of return expectations. The company also proceeds on an expansion to take the capacity of its oil sands plant to 350,000 barrels daily by 2009.

McDep Ratio Relates Oil Price to Opportunity

A McDep Ratio near 1.0 tells us that Suncor's market cap and debt, or enterprise value, is near the estimated present value of its energy resources assuming a long-term real price of \$50 a barrel for Light, Sweet Crude Oil. Meanwhile six-year oil futures are about \$66 a barrel. Momentum has been positive for more than three years as the current quote stays above the 40-week average (see chart [Six-Year Commodity Price Meter](#)). Six-year oil has tripled in the four years we have been calculating it on a weekly basis. We do not need further gains in oil price to make money in buy recommendations. Yet our vision of \$150 oil in 2010 implies additional scope to exceed common expectations.

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Suncor's McDep Ratio ranks in the midst of peer companies (see table [Rank by McDep Ratio](#)). Aside from fundamental value, a McDep Ratio of 1.0 is an indication of takeover value. The McDep Ratio of buy-recommended **Burlington Resources (BR)**, increased to 1.0 immediately after buy-recommended **ConocoPhillips (COP)** announced its takeover offer.

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

	Symbol/ Rating	Price (\$/sh) 26-Jan 2006	Shares (mm)	Market Cap (\$mm)	Net Present Value (\$/sh)	Debt/ Present Value	McDep Ratio
Producer/Refiners - Large Cap and Mid Cap							
Kinder Morgan, Inc.	KMI S2	97.85	139	13,640	33.00	0.74	1.51
Imperial Oil Limited (30%)	IMO B	102.56	102	10,480	84.00	0.10	1.20
Petro-Canada	PCZ B	45.20	523	23,640	42.00	0.19	1.06
Suncor Energy	SU B	76.40	461	35,230	75.00	0.10	1.02
Marathon Oil Corporation	MRO B	72.50	368	26,670	75.00	0.25	0.97
Norsk Hydro ASA	NHY B	116.50	251	29,230	130.00	0.17	0.91
PetroChina Company Ltd (10%)	PTR B	94.56	176	16,620	120.00	0.01	0.79
Lukoil Oil Company	LUKOY B	77.80	830	65,000	100.00	0.01	0.78
Gazprom (50%)	OGZPF B	91.00	1,013	92,200	120.00	0.03	0.77
	<i>Total or Median</i>			<i>313,000</i>		<i>0.10</i>	<i>0.97</i>

Low Cash Flow Multiple

Suncor has an adjusted reserve life index of 17.7 years, high among peers (see table [Rank by EV/Ebitda](#)). In our adjustment for correlation purposes, we arbitrarily limit any resource including oil sands to 20 years. Suncor's unlevered multiple, EV/Ebitda, is higher than peers, but amply justified by reserve life.

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Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	Symbol/ Rating		Price (\$/sh) 26-Jan 2006	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	97.85		8.2	12.4	20	3.6
Gazprom (50%)	OGZPF	B	91.00	20.0	10.7	8.2	14	0.5
Imperial Oil Limited (30%)	IMO	B	102.56	11.5	6.7	8.1	14	0.8
Suncor Energy	SU	B	76.40	17.7	7.4	7.5	15	0.3
Petro-Canada	PCZ	B	45.20	6.0	5.1	5.5	9	0.8
Norsk Hydro ASA	NHY	B	116.50	7.9	5.1	4.7	9	2.6
PetroChina Company Ltd (10%)	PTR	B	94.56	13.8	5.8	4.6	9	4.0
Marathon Oil Corporation	MRO	B	72.50	6.5	4.6	4.5	7	1.8
Lukoil Oil Company	LUKOY	B	77.80	19.7	5.5	4.3	6	1.3
	<i>Median</i>			<i>12.7</i>	<i>5.8</i>	<i>5.5</i>	<i>9</i>	<i>1.3</i>

Most Concentration on Oil

Each oil and gas stock has its own unique mix of energy resources (see table Business Segments). Suncor's concentration on oil is the highest among peers at 89%.

Home Country and Business Segments

	Symbol/ Rating		Non- U.S. Domicile	North Amer. Natural Gas (%)	Rest of World Natural Gas (%)	Oil Prod'n (%)	Down- stream (%)	Total Present Value (US\$mm)
Producer/Refiners - Large Cap and Mid Cap								
Gazprom	OGZPF	B	Russia		100			251,000
PetroChina Company Ltd.	PTR	B	China	-	9	71	20	213,000
Lukoil Oil Company	LUKOY	B	Russia	-	-	75	25	83,600
Norsk Hydro ASA	NHY	B	Norway	-	29	38	33	39,400
Suncor Energy	SU	B	Canada	4	-	89	7	38,200
Marathon Oil Corporation	MRO	B		13	7	40	41	36,600
Imperial Oil Limited	IMO	B	Canada	13	-	62	25	31,900
Petro-Canada	PCZ	B	Canada	23	4	53	20	27,200
	<i>Median</i>			<i>4</i>	<i>5</i>	<i>62</i>	<i>25</i>	<i>721,000</i>

Static Present Value Justified by Dynamic Cash Flow

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 relationship is about \$6 a share higher than our steady estimate for the company (see table Functional Cash Flow and Present Value).

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Suncor
Functional Cash Flow and Present Value

	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<u><i>(US\$mm)</i></u>	<u><i>R/P</i></u>	<u><i>Ebitda</i></u>	<u><i>(US\$mm)</i></u>	
North American Natural Gas	260	8.0	5.8	1,500	4%
Oil	4,390	18.5	7.7	34,000	89%
Downstream	510		5.3	2,700	7%
	5,160	17.7	7.4	38,200	100%
Debt (US\$mm)					3,700
Net Present Value (US\$mm)					34,500
Shares (mm)					461
Net Present Value (US\$/sh)					75
Over (-)/ Under (+) Correlation (US\$/sh)					6

Futures Prices Propel Estimated Cash Flow by Quarter

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). Futures prices from the New York Mercantile Exchange determine industry benchmarks for the next year.

Kurt H. Wulff, CFA

Suncor
Next Twelve Months Operations
 (Canadian Dollars)

	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Next Twelve Months</i>
	<i>12/31/04</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>12/31/06</i>
Volume									
Natural Gas (mmcf)	193	200	193	190	193	193	193	193	193
Oil (mbd)	237	147	254	169	260	260	260	260	260
Total gas & oil (bcf)	148	100	158	438	158	160	161	161	640
Total gas & oil (mbd)	269	181	286	200	292	292	292	292	292
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	7.10	8.56	13.00	8.65	9.56	8.95	9.20	10.11	9.45
Currency (US\$/C\$)	0.82	0.83	0.85	0.83	0.87	0.87	0.87	0.87	0.87
Henry Hub (C\$/mmbtu)	8.66	10.29	15.30	10.41	11.00	10.29	10.58	11.63	10.88
U.S. (or North America)	6.98	8.34	11.83	8.59	8.50	7.96	8.18	8.99	8.41
Oil (\$/bbl)									
WTI Cushing	48.31	62.52	60.02	56.31	67.34	69.02	69.68	69.95	69.00
WTI Cushing (C\$/bbl)	58.94	75.14	70.61	68.07	77.46	79.40	80.16	80.47	79.37
Company	54.31	67.78	66.61	62.52	73.08	74.91	75.62	75.92	74.89
Total gas & oil (\$/mcf)	8.80	10.75	11.18	10.13	11.78	11.99	12.12	12.25	12.03
NY Harbor 3-2-1 (\$/bbl)	5.72	16.70	9.05	10.63	8.04	11.92	12.44	10.23	10.66
Revenue (\$mm)									
Natural Gas	124	153	210	595	148	140	145	160	592
Oil	1,182	919	1,554	3,846	1,710	1,772	1,809	1,816	7,107
Other	1,004	2,069	1,739	6,645	1,739	1,739	1,739	1,739	6,955
Total	2,310	3,142	3,503	11,086	3,597	3,651	3,693	3,714	14,655
Expense									
Fixed	269	293	282	941	282	282	282	282	852
Variable	269	293	282	941	297	305	312	315	856
Other	909	1,914	1,591	6,237	2,170	2,178	2,185	2,188	7,469
Ebitda (\$mm)									
Exploration and Production	768	487	1,201	2,559	1,280	1,325	1,361	1,379	5,345
Other	95	155	147	408	147	147	147	147	589
Total Ebitda	863	642	1,348	2,967	1,427	1,473	1,508	1,526	5,934
Exploration	7	29	8	56	8	8	8	8	32
Deprec., Deplet., & Amort.	183	174	213	727	213	213	213	213	852
Hedging and Insurance	208	(53)	35	203	166	174	179	180	699
Ebit	464	492	1,092	1,981	1,040	1,077	1,108	1,125	4,351
Interest	33	45	42	165	42	42	42	42	169
Ebt	432	447	1,050	1,816	998	1,035	1,066	1,083	4,183
Income Tax	151	156	367	636	349	362	373	379	1,464
Net Income (\$mm)									
Exploration and Production	297	277	664	1,228	632	658	679	691	2,659
Other	34	67	77	183	73	73	74	74	293
Unallocated	(50)	(54)	(59)	(231)	(56)	(58)	(59)	(60)	(233)
Total	281	290	682	1,180	649	673	693	704	2,719
Shares (millions)	460	461	461	461	461	461	461	461	461
Per share (\$)	0.61	0.63	1.48	2.56	1.41	1.46	1.50	1.53	5.90
Ebitda Margin	37%	20%	38%	27%	40%	40%	41%	41%	40%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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