



Independent Stock Idea

June 10, 2016

Suncor Energy Inc. (SU) Revitalized after Wildfire

<i>Symbol</i>	SU	<i>Ebitda Next Twelve Months ending /30/17 (US\$mm)</i>	6,600
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	27.67	<i>Natural Gas and Oil Production/Ebitda (%)</i>	67
<i>Pricing Date</i>	6/9/16	<i>Adjusted Reserves/Production NTM</i>	22.3
<i>Shares (mm)</i>	1665	<i>EV/Ebitda</i>	9.5
<i>Market Capitalization (US\$mm)</i>	46,100	<i>PV/Ebitda</i>	11.3
<i>Debt (US\$mm)</i>	16,400	<i>Undeveloped Reserves (%)</i>	46
<i>Enterprise Value (EV) (US\$mm)</i>	62,500	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	24.40
<i>Present Value (PV) (US\$mm)</i>	74,700	<i>Present Value Proven Reserves(US\$/boe)</i>	12.40
<i>Net Present Value (US\$/share)</i>	35	<i>Ebitda Margin NTM (%)</i>	44
<i>Debt/Present Value</i>	0.22	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.79
<i>McDep Ratio - EV/PV</i>	0.84	<i>Price/Earnings Next Twelve Months</i>	
<i>Dividend Yield (%/year)</i>	3.3	<i>Indicated Annual Dividend (US\$/sh)</i>	0.91
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\$70 a barrel and natural gas, \$4.00 a million btu. For historical analysis of SU since 2004 see www.mcdep.com/2su.htm			

Summary and Recommendation

Slowing rate of gain in **Suncor Energy Inc. (SU)** stock price may reaccelerate with the resumption of oil production after the threat from an historic wildfire in the Alberta boreal forest has diminished. At peak threat at the end of April, the blaze may have contributed to a 10% stock price drop. New guidance from management issued on June 6 anticipates that production at the company's giant oil sands facilities will be nearly fully restored by the beginning of the third quarter on July 1 (see table [Operating and Financial Estimates](#) on page 2). At the same time, lost volumes helped global oil price to approach normal from panic lows earlier this year. Also, the Canadian dollar tends to move with oil price and investors tend to favor Canadian stocks when the currency strengthens. Furthermore, a C\$2.5 billion dollar sale of new shares on June 7 depressed share price slightly to cover the cost of financing. Proceeds are to be applied to the recent purchase of another 5% interest that raises Suncor's ownership to 54% in the Syncrude oil sands mine and upgrader. Ultimately, Suncor may be able to operate the immediately adjacent Syncrude and Suncor oil sands mining and upgrader facilities as one giant, efficient plant churning out more than a half million barrels daily of high quality oil. In any case, we are confident that Suncor is a strong, well-managed, resilient, financially sound company that has a solid future. Valuation is attractive at a McDep Ratio of 0.84 consistent with moderate debt and a stock price near US\$28 a share compared to Net Present Value of \$35 (see table [Present Value](#) on page 3 and [Tables 1-4](#) on pages 4-7). Finally, we feel good about the positive trend signaled by the golden cross as the 50-day average of stock price crossed above the 200-day average (see chart on page 3).

Kurt H. Wulff, CFA



Independent Stock Idea

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Suncor										
Next Twelve Months Operating and Financial Estimates										
(Canadian Dollars)										
										<i>Next Twelve Months</i>
	<i>Q2</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>
	<i>6/30/15</i>	<i>2015</i>	<i>3/31/16</i>	<i>6/30/16</i>	<i>9/30/16</i>	<i>12/31/16</i>	<i>2016E</i>	<i>3/31/17</i>	<i>6/30/17</i>	<i>6/30/17</i>
Volume										
Oil Sands (mmb)	38.6	158	41.2	25.2	37.3	37.3	141	36.5	36.9	148
Syncrude	2.3	11	3.0	12.4	13.8	13.8	43	13.5	13.7	55
E&P Canada	3.6	17	4.9	4.1	4.1	4.1	17	4.1	4.1	16
E&P International	6.5	25	6.6	5.0	5.1	5.1	22	5.0	5.0	20
Total Oil (mmb)	51.0	211	55.7	46.7	60.3	60.3	223	59.0	59.6	239
Days	91	365	91	91	92	92	366	90	91	365
Oil Sands (mbd)	424	434	453	277	405	405	385	405	405	405
Syncrude	25	30	33	136	150	150	117	150	150	150
E&P Canada	39	47	54	45	45	45	47	45	45	45
E&P International	72	67	72	55	55	55	59	55	55	55
Total Oil (mbd)	560	578	612	513	655	655	609	655	655	655
Price										
Currency (US\$/C\$)	0.81	0.78	0.73	0.79	0.79	0.79	0.77	0.79	0.79	0.79
WTI Cushing (\$US/bbl)	57.94	48.79	33.47	45.57	49.09	50.20	44.58	50.82	51.12	50.31
WTI Cushing (C\$/bbl)	71.53	62.22	45.84	57.94	62.42	63.83	57.51	64.62	65.01	63.97
Oil Sands	60.81	49.37	34.21	43.24	46.58	47.63	42.64	48.22	48.51	47.73
Syncrude	75.19	61.55	44.93	56.79	61.18	62.56	59.22	63.33	63.71	62.69
E&P Canada	75.44	62.64	46.17	58.35	62.87	64.28	57.42	65.08	65.47	64.42
E&P International	70.18	62.68	43.02	54.37	58.58	59.90	53.21	60.64	61.00	60.02
Total Oil (C\$/bbl)	63.68	52.63	36.87	49.35	52.05	53.22	48.01	53.88	54.20	53.34
Revenue (\$mm)										
Oil Sands	2,345	7,813	1,410	1,090	1,736	1,775	6,011	1,758	1,788	7,056
Syncrude	170	669	135	703	844	863	2,545	855	870	3,432
E&P Canada	270	1,075	225	239	260	266	991	264	268	1,058
E&P International	459	1,543	282	272	296	303	1,153	300	305	1,205
Total Oil	3,245	11,099	2,052	2,304	3,137	3,207	10,700	3,177	3,231	12,751
Other	4,899	18,581	4,192	4,192	4,192	4,192	16,768	4,192	4,192	16,768
Total	8,144	29,680	6,526	6,768	7,625	7,702	28,622	7,669	7,728	30,724
Expense										
Upstream	1,386	6,315	1,538	1,587	1,808	1,808	6,740	1,769	1,788	7,172
Downstream	3,898	15,367	3,795	3,492	3,492	3,492	14,272	3,492	3,492	13,968
Ebitda (\$mm)										
Upstream	1,859	4,784	515	717	1,329	1,399	3,959	1,408	1,443	5,580
Downstream	1,001	3,214	397	700	700	700	2,497	700	700	2,800
Total Ebitda	2,860	7,998	911	1,417	2,029	2,099	6,456	2,108	2,143	8,380
Exploration	149	294	41	41	41	41	164	41	41	164
Deprec., Deplet., & Amort.	1,305	5,040	1,472	1,472	1,472	1,472	5,888	1,199	1,199	5,342
Other		154					-			-
Ebit	1,406	2,510	(602)	(96)	516	586	404	868	903	2,873
Interest	104	423	113	113	113	113	452	132	132	490
Ebt	1,302	2,087	(715)	(209)	403	473	(48)	736	771	2,383
Income Tax	391	626	(214)	(63)	121	142	(14)	221	231	715
Net Income (\$mm)										
Upstream	-	(496)	(558)							
Downstream	663	2,266	241							
Unallocated	249	(309)	(183)							
Total	912	1,461	(500)	(147)	282	331	(34)	515	539	1,668
Shares (millions)	1,447	1,446	1,516	1,583	1,665	1,665	618	1,665	1,665	1,665
Per share (\$)	0.63	1.01	(0.33)	(0.09)	0.17	0.20	(0.05)	0.31	0.32	1.00
Ebitda Margin Upstream	57%	43%	25%	31%	42%	44%	37%	44%	45%	44%
Tax Rate	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%



Independent Stock Idea

June 10, 2016

Suncor					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
Oil Sands	2,430	31.3	15.5	37,700	50%
Syncrude	1,180	17.3	13.6	16,000	21%
Conventional Oil	780	6.6	11.5	9,000	12%
Downstream	2,200		5.5	12,000	16%
	6,590	22.3	11.3	74,700	100%
Debt (US\$mm)					16,400
Net Present Value (US\$mm)					58,300
Shares (mm)					1,665
Net Present Value - Standard Estimate (US\$/sh)					35
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					38





Independent Stock Idea

June 10, 2016

Symbol/Rating	Price (US\$/sh)	EV/ Market Cap	Enterprise Value (\$mm)	Present Value by Segment (%)				Dist. Yield	NTM (%)	McDep Ratio
				North Amer.	Rest of World	Oil Prod'n	Down- stream			
				Natural Gas	Natural Gas					
Global Integrated										
Exxon Mobil Corporation	XOM	90.67	1.25	473,000	5	13	63	20	3.3	0.92
Chevron Corporation	CVX	102.81	1.34	258,000	2	11	68	19	4.2	0.81
Royal Dutch Shell	RDS-A B	52.32	1.68	326,000	1	17	44	37	7.2	0.76
Total S.A.	TOT B	48.71	1.53	175,000		22	55	23	5.6	0.64
<i>Total or Median</i>			<i>1.43</i>	<i>1,232,000</i>			<i>59</i>	<i>21</i>	<i>4.9</i>	<i>0.79</i>
Large Independent										
EOG Resources, Inc.	EOG	84.58	1.16	53,500	10	2	88		0.8	1.11
Devon Energy Corporation	DVN	37.45	1.61	29,700	25		65	9	0.6	1.08
Occidental Petroleum Corp.	OXY	75.60	1.17	67,300	3	2	85	10	4.0	1.01
Marathon Oil Corporation	MRO B	14.26	1.57	18,900	9	2	89		1.4	0.80
ConocoPhillips	COP B	46.57	1.68	98,000	11	15	74		2.1	0.77
<i>Total or Median</i>			<i>1.57</i>	<i>267,000</i>	<i>10</i>		<i>85</i>		<i>1.4</i>	<i>1.01</i>
Small Independent										
Cimarex Energy Company	XEC	120.33	1.11	12,400	32		68		0.3	1.29
Range Resources	RRC	46.21	1.39	10,800	70		30		0.2	1.07
California Resources	CRC	17.48	11.30	7,600	10		90		-	0.86
Continental Resources (32%)	CLR B	43.15	1.45	7,400	20		80		-	0.83
Whiting Petroleum Corporation	WLL B	13.35	2.16	7,800	7		93		-	0.63
<i>Total or Median</i>			<i>1.45</i>	<i>46,000</i>	<i>20</i>		<i>80</i>		<i>-</i>	<i>0.86</i>
Income										
San Juan Basin Royalty Trust	SJT	7.14	1.00	330	100		-		4.9	0.89
Permian Basin RT	PBT	7.39	1.00	340	23		77		7.7	0.67
Dorchester Minerals, L.P.	DMLP B	14.43	1.00	440	28		72		7.9	0.60
Cross Timbers Royalty Trust	CRT	17.20	1.00	100	57		43		7.7	0.59
Sabine Royalty Trust	SBR B	35.43	1.00	520	38		62		6.9	0.59
<i>Total or Median</i>			<i>1.00</i>	<i>1,700</i>	<i>38</i>		<i>62</i>		<i>7.7</i>	<i>0.60</i>
Canada										
EnCana Corporation	ECA	8.68	2.09	15,500	44		56		0.7	1.17
Imperial Oil Limited (30%)	IMO	31.89	1.34	10,900	1		70	29	1.3	0.87
Suncor Energy	SU	27.67	1.36	62,500	-		84	16	3.3	0.84
Cenovus Energy Inc.	CVE	15.18	1.30	16,300	10		82	8	1.0	0.80
Birchcliff Energy Ltd.	BIREF B	5.17	1.77	1,400	74		26		-	0.61
<i>Total or Median</i>			<i>1.36</i>	<i>107,000</i>			<i>70</i>		<i>1.0</i>	<i>0.84</i>
Estimated present value presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.00 a million btu.										
Estimated present value capped by unlevered cash flow multiple (EV/Ebitda)										
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses										
For historical research see www.mcdep.com										



Independent Stock Idea

June 10, 2016

			<i>Price (US\$/sh)</i>		<i>Market Cap</i>	<i>Net Present Value</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>
	<i>Symbol/Rating</i>		<i>9-Jun 2016</i>	<i>Shares (mm)</i>	<i>(US\$mm)</i>	<i>(US\$/sh)</i>		
	B = Buy							
Global Integrated								
Exxon Mobil Corporation	XOM		90.67	4,178	379,000	100.00	0.18	0.92
Chevron Corporation	CVX		102.81	1,870	192,000	135.00	0.21	0.81
Royal Dutch Shell	RDS-A	B	52.32	3,701	194,000	80.00	0.31	0.76
Total S.A.	TOT	B	48.71	2,350	115,000	90.00	0.22	0.64
	<i>Total or Median</i>				<i>880,000</i>		<i>0.21</i>	<i>0.79</i>
Large Independent								
EOG Resources, Inc.	EOG		84.58	547	46,300	75.00	0.15	1.11
Devon Energy Corporation	DVN		37.45	492	18,400	33.00	0.41	1.08
Occidental Petroleum Corp.	OXY		75.60	763	57,700	75.00	0.14	1.01
Marathon Oil Corporation	MRO	B	14.26	845	12,050	20.00	0.29	0.80
ConocoPhillips	COP	B	46.57	1,245	58,000	70.00	0.31	0.77
	<i>Total or Median</i>				<i>192,500</i>		<i>0.29</i>	<i>1.01</i>
Small Independent								
Cimarex Energy Company	XEC		120.33	93	11,200	90.00	0.13	1.29
Range Resources	RRC		46.21	167	7,700	42.00	0.30	1.07
California Resources	CRC		17.48	38	700	50.00	0.78	0.86
Continental Resources (32%)	CLR	B	43.15	118	5,100	56.00	0.26	0.83
Whiting Petroleum Corporation	WLL	B	13.35	271	3,600	30.00	0.34	0.63
	<i>Total or Median</i>				<i>28,000</i>		<i>0.30</i>	<i>0.86</i>
Income								
San Juan Basin Royalty Trust	SJT		7.14	47	330	8.00	-	0.89
Permian Basin RT	PBT		7.39	47	340	11.00	-	0.67
Dorchester Minerals, L.P.	DMLP	B	14.43	31	440	24.00	-	0.60
Cross Timbers Royalty Trust	CRT		17.20	6	100	29.00	-	0.59
Sabine Royalty Trust	SBR	B	35.43	15	520	60.00	-	0.59
	<i>Total or Median</i>				<i>1,700</i>		<i>-</i>	<i>0.60</i>
Canada								
EnCana Corporation	ECA		8.68	850	7,400	6.00	0.61	1.17
Imperial Oil Limited (30%)	IMO		31.89	255	8,100	38.00	0.22	0.87
Suncor Energy	SU		27.67	1,665	46,100	35.00	0.22	0.84
Cenovus Energy Inc.	CVE		15.18	825	12,500	20.00	0.19	0.80
Birchcliff Energy Ltd.	BIREF	B	5.17	153	800	11.00	0.27	0.61
	<i>Total or Median</i>				<i>75,000</i>		<i>0.22</i>	<i>0.84</i>
Estimated present value presumes a long-term price for oil of US\$70 a barrel and natural gas, \$4.00 a million btu.								
Estimated present value capped by unlevered cash flow multiple (EV/Ebitda)								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								
For historical research see www.mcdep.com								



Independent Stock Idea

June 10, 2016

Table 3							
McDep Energy Stocks							
Value Multiples and Dividend							
Ranked by EV/Ebitda							
			Price (US\$/sh)	Adjustd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	Dividend
	Symbol/Rating		9-Jun 2016	NTM	NTM	NTM	NTM
	B = Buy						(\$/sh)
Global Integrated							
	XOM		90.67	13.7	12.0	11.1	27
	CVX		102.81	9.3	11.1	9.0	31
	TOT	B	48.71	9.8	10.1	6.5	12
	RDS-A	B	52.32	8.9	8.4	6.4	14
	<i>Median</i>			9.6	10.6	7.7	20
Large Independent							
	DVN		37.45	9.2	15.1	16.3	0.24
	EOG		84.58	8.1	13.9	15.4	0.67
	OXY		75.60	8.2	12.9	13.0	3.00
	MRO	B	14.26	13.2	14.6	11.6	0.20
	COP	B	46.57	11.4	14.2	10.9	1.00
	<i>Median</i>			9.2	14.2	13.0	
Small Independent							
	RRC		46.21	14.4	23.6	25.3	0.08
	XEC		120.33	7.4	13.8	17.8	0.32
	CLR	B	43.15	11.4	17.2	14.3	-
	CRC		17.48	11.4	12.1	10.4	-
	WLL	B	13.35	13.5	13.0	8.2	-
	<i>Median</i>			11.4	13.8	14.3	
Income							
	SJT		7.14	9.9	20.6	18.4	20
	SBR	B	35.43	10.2	24.4	14.4	14
	PBT		7.39	8.6	16.9	11.4	13
	DMLP	B	14.43	6.8	18.6	11.2	16
	CRT		17.20	6.0	17.2	10.2	13
	<i>Median</i>			8.6	18.6	11.4	14
Canada							
	ECA		8.68	5.7	12.5	14.7	0.06
	BIREF	B	5.17	15.5	19.0	11.6	-
	CVE		15.18	16.9	12.3	9.9	0.15
	IMO		31.89	27.7	10.9	9.5	0.43
	SU		27.67	22.3	11.3	9.5	0.91
	<i>Median</i>			16.9	12.3	9.9	
	<i>Grand Median</i>			11	14	11	

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended June 30, 2017; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses For historical research see www.mcdep.com



Independent Stock Idea

June 10, 2016

Table 4										
McDep Energy Stocks										
Total Return Year-to-Date 2016										
Ranked by Unlevered Total Return										
			Price	Price			Equity	Unlevered		
			(\$/sh)	(\$/sh)	Price	Cash	Total	Debt	McDep	
	Symbol/Rat.		9-Jun	31-Dec	Change	Distrib.	Return	Return	Ratio	
			2016	2015	(%)	(%)	(%)	(\$/sh)	(%)	
Global Integrated										
	Exxon Mobil Corporation	XOM	90.67	77.95	16	1	17	23	13	0.92
	Chevron Corporation	CVX	102.81	89.96	14	1	15	35	11	0.81
	Royal Dutch Shell	RDS-A B	52.32	45.79	14	2	16	36	9	0.76
	Total S.A.	TOT B	48.71	44.95	8	2	10	26	6	0.64
	<i>Median</i>				14		16		10	0.79
Large Independent										
	EOG Resources, Inc.	EOG	84.58	70.79	19	0	20	13	17	1.11
	Occidental Petroleum Corp.	OXY	75.60	67.61	12	1	13	13	11	1.01
	Devon Energy Corporation	DVN	37.45	32.00	17	1	18	23	10	1.08
	Marathon Oil Corporation	MRO B	14.26	12.58	13	0	14	8	8	0.80
	ConocoPhillips	COP B	46.57	46.69	(0)	1	0	32	0	0.77
	<i>Median</i>				13		14		10	1.01
Small Independent										
	Range Resources	RRC	46.21	24.62	88	0	88	18	50	1.07
	Continental Resources (32%)	CLR B	43.15	22.98	88	-	88	19	47	0.83
	Cimarex Energy Company	XEC	120.33	89.38	35	0	35	13	30	1.29
	Whiting Petroleum Corporation	WLL B	13.35	9.44	41	-	41	15	16	0.63
	California Resources	CRC	17.48	23.30	(25)	-	(25)	181	(3)	0.86
	<i>Median</i>				41		41		30	0.86
Income										
	San Juan Basin Royalty Trust	SJT	7.14	4.14	72	2	74	-	74	0.89
	Dorchester Minerals, L.P.	DMLP B	14.43	9.89	46	4	49	-	49	0.60
	Permian Basin RT	PBT	7.39	5.06	46	1	47	-	47	0.67
	Sabine Royalty Trust	SBR B	35.43	26.26	35	2	37	-	37	0.59
	Cross Timbers Royalty Trust	CRT	17.20	13.01	32	4	36	-	36	0.59
	<i>Median</i>				46		47		47	0.60
Canada										
	Birchcliff Energy Ltd.	BIREF B	5.17	2.93	76	-	76	4	32	0.61
	EnCana Corporation	ECA	8.68	5.09	71	1	72	9	25	1.17
	Cenovus Energy Inc.	CVE	15.18	12.62	20	1	21	5	16	0.80
	Suncor Energy	SU	27.67	25.80	7	1	8	10	6	0.84
	Imperial Oil Limited (30%)	IMO	31.89	32.52	(2)	0	(2)	11	(1)	0.87
	<i>Median</i>				20		21		16	0.84
	<i>Grand Median</i>				20		21		16	0.82
	Natural Gas (\$/mmbtu)		2.60	2.33	12					
	Oil - West Texas Intermediate (\$/bbl)		50.44	37.06	36					
	S&P 500		2,115	2,044	3					
Source: McDep LLC, Yahoo, CME Group, Bloomberg					For historical research see www.mcdep.com					



Independent Stock Idea

June 10, 2016

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