



Independent Stock Idea

October 31, 2016

Suncor Energy Inc. (SU) Raise NPV to \$44 from \$35

<i>Symbol</i>	SU	<i>Ebitda Next Twelve Months ending 9/30/17 (US\$mm)</i>	8,000
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	30.02	<i>Natural Gas and Oil Production/Ebitda (%)</i>	76
<i>Pricing Date</i>	10/31/16	<i>Adjusted Reserves/Production NTM</i>	20.7
<i>Shares (mm)</i>	1666	<i>EV/Ebitda</i>	8.5
<i>Market Capitalization (US\$mm)</i>	50,000	<i>PV/Ebitda</i>	11.4
<i>Debt (US\$mm)</i>	18,200	<i>Undeveloped Reserves (%)</i>	46
<i>Enterprise Value (EV) (US\$mm)</i>	68,200	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	30.60
<i>Present Value (PV) (US\$mm)</i>	91,500	<i>Present Value Proven Reserves(US\$/boe)</i>	17.35
<i>Net Present Value (US\$/share)</i>	44	<i>Ebitda Margin NTM (%)</i>	51
<i>Debt/Present Value</i>	0.20	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.28
<i>McDep Ratio - EV/PV</i>	0.75	<i>Price/Earnings Next Twelve Months</i>	
<i>Dividend Yield (%/year)</i>	2.9	<i>Indicated Annual Dividend (US\$/sh)</i>	0.86
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

We upgrade Suncor (SU) stock to a Buy on the basis of an increase in estimated Net Present Value (NPV) to US\$44 a share from US\$35. The increase in NPV comes as a result of better than expected operations in the third quarter reported on October 27 (see table Operating and Financial Estimates on page 2). Unlevered cash flow (Ebitda) was unusually depressed in the first quarter as a result of oil price fear (see chart Upstream Cash Flow on page 3). Then in the second quarter large volumes were shut in as a precaution against regional wildfires. With less volume to support fixed costs, unit costs increased while leaving little margin for positive cash flow. Strong recovery in the third quarter supports higher cash flow projections and higher NPV (see table Present Value on page 3). As a result, we restore a second buy in the Canadian group to match our designation of two low McDep Ratio buys in each group in research coverage (see Tables 1-4 on page 4-7). Among the plusses in Suncor's outlook is the opportunity for efficiencies from interconnecting 64%-owned Syncrude with the 100%-owned Suncor oil sands mine and upgrader. Chief Executive Steve Williams points out that Syncrude has extra hydro treating capacity while Suncor is short. Most likely a deal can be worked out that would share the cost savings of combined operations with the minority owners of Syncrude. On balance, Suncor is a well-managed, financially strong North American oil producer likely to distribute an increasing stream of cash to shareholders in the form of dividend increases and stock buybacks in the coming years.

Kurt H. Wulff, CFA



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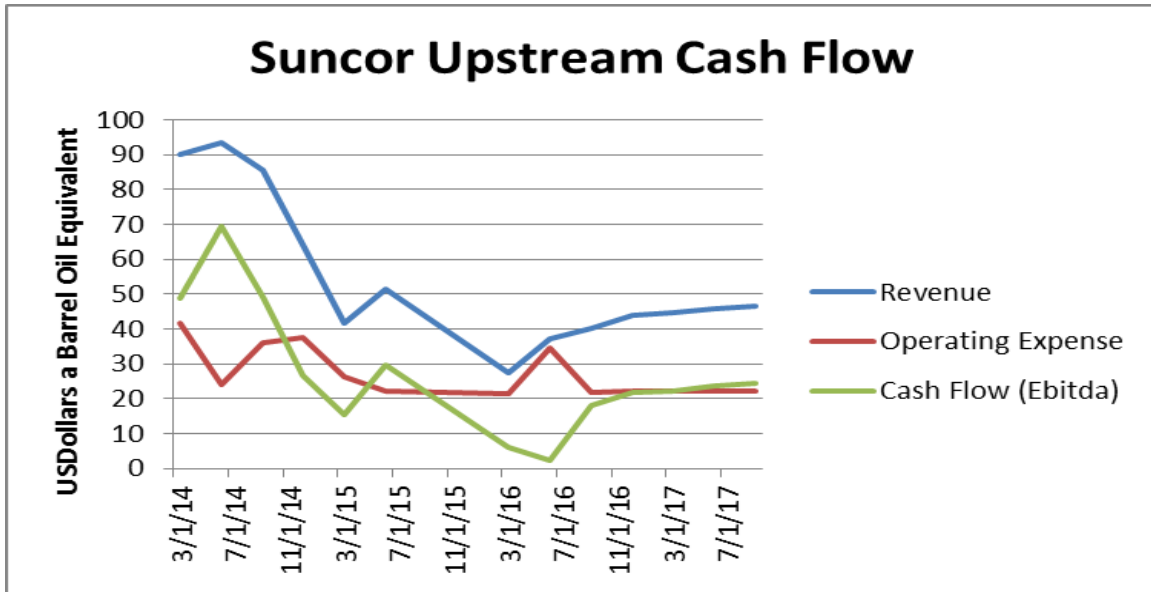
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Suncor										
Next Twelve Months Operating and Financial Estimates										
(Canadian Dollars)										
										<i>Next Twelve Months</i>
	<i>Q3</i>	<i>Year</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>9/30/17</i>
	<i>9/30/15</i>	<i>2015</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>9/30/17</i>	<i>9/30/17</i>
Volume										
Oil Sands (mmb)	39.6	158	16.2	39.9	39.9	137	39.0	39.5	39.9	158
Syncrude	2.6	11	3.2	16.9	16.9	47	16.5	16.7	16.9	67
E&P Canada	3.7	17	4.0	4.9	4.9	19	4.8	4.8	4.9	19
E&P International	6.2	25	6.7	5.3	5.3	24	5.2	5.2	5.3	21
Total Oil (mmb)	52.1	211	30.1	67.0	67.0	227	65.5	66.3	67.0	266
Days	92	365	91	92	92	366	90	91	92	365
Oil Sands (mbd)	430	434	178	434	434	375	434	434	434	434
Syncrude	28	30	36	184	184	129	184	184	184	184
E&P Canada	41	47	44	53	53	51	53	53	53	53
E&P International	67	67	73	58	58	65	58	58	58	58
Total Oil (mbd)	566	578	331	728	728	620	728	728	728	728
Price										
Currency (US\$/C\$)	0.76	0.78	0.78	0.77	0.75	0.76	0.75	0.75	0.75	0.75
WTI Cushing (\$US/bbl)	46.39	48.79	45.66	44.91	49.12	43.29	49.92	51.36	52.11	50.63
WTI Cushing (C\$/bbl)	61.04	62.22	58.53	58.32	65.92	57.15	67.00	68.93	69.94	67.95
Oil Sands	47.93	49.37	38.28	47.75	53.97	44.38	54.85	56.44	57.26	55.63
Syncrude	61.00	61.55	59.34	58.62	66.26	58.43	67.34	69.28	70.30	68.30
E&P Canada	59.09	62.64	62.39	61.63	69.66	59.86	70.80	72.84	73.91	71.81
E&P International	62.86	62.68	55.43	56.96	64.38	54.34	65.43	67.32	68.31	66.36
Total Oil (C\$/bbl)	51.15	52.63	47.58	52.23	59.04	49.63	60.01	61.74	62.64	60.86
Revenue (\$mm)										
Oil Sands	1,897	7,813	618	1,905	2,153	6,087	2,141	2,227	2,285	8,807
Syncrude	158	669	192	991	1,120	2,765	1,114	1,159	1,189	4,582
E&P Canada	221	1,075	252	301	340	1,119	338	352	361	1,392
E&P International	388	1,543	369	301	341	1,293	339	352	361	1,393
Total Oil	2,664	11,099	1,432	3,499	3,955	11,264	3,932	4,090	4,196	16,173
Other	4,893	18,581	18,581	4,192	4,192	31,157	4,192	4,192	4,192	16,768
Total	7,557	29,680	20,382	7,992	8,487	43,714	8,463	8,635	8,750	34,335
Expense										
Upstream	1,493	6,315	1,339	1,913	2,010	7,125	1,966	1,988	2,010	7,973
Downstream	3,993	15,367	17,756	3,603	3,603	28,757	3,603	3,492	3,492	14,190
Ebitda (\$mm)										
Upstream	1,171	4,784	93	1,586	1,945	4,139	1,966	2,103	2,187	8,200
Downstream	900	3,214	825	589	589	2,400	589	700	700	2,579
Total Ebitda	2,071	7,998	918	2,175	2,534	6,539	2,555	2,803	2,887	10,780
Exploration	55	294	16	146	146	349	146	146	146	584
Deprec., Deplet., & Amort.	1,333	5,040	1,605	1,439	1,439	5,955	1,439	1,439	1,439	5,756
Other		154				-				-
Ebit	683	2,510	(703)	590	949	235	970	1,218	1,302	4,439
Interest	105	423	116	90	90	409	90	90	90	360
Ebt	578	2,087	(819)	500	859	(174)	880	1,128	1,212	4,079
Income Tax	174	626	(246)	150	258	(52)	264	338	363	1,224
Net Income (\$mm)										
Upstream	(51)	(496)	(1,037)	306						
Downstream	613	2,266	689	436						
Unallocated	(157)	(309)	(225)	(392)						
Total	405	1,461	(573)	350	602	(122)	616	789	848	2,855
Shares (millions)	1,446	1,446	1,592	1,666	1,666	1,025	1,666	1,666	1,665	1,666
Per share (\$)	0.28	1.01	(0.36)	0.21	0.36	(0.12)	0.37	0.47	0.51	1.71
Ebitda Margin Upstream	44%	43%	7%	45%	49%	37%	50%	51%	52%	51%
Tax Rate	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%



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Suncor					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
Oil Sands	3,330	31.9	13.1	43,500	48%
Syncrude	1,730	14.1	12.7	22,000	24%
Conventional Oil	1,050	6.0	12.4	13,000	14%
Downstream	1,920		6.8	13,000	14%
	8,030	20.7	11.4	91,500	100%
Debt (US\$mm)					18,200
Net Present Value (US\$mm)					73,300
Shares (mm)					1,666
Net Present Value - Standard Estimate (US\$/sh)					44
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					47



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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	83.32	1.27	443,000	10	15	49	26	3.6	0.86
Chevron Corporation	CVX	104.75	1.34	264,000	3	14	64	20	4.1	0.82
Royal Dutch Shell	RDS-A B	49.81	1.69	334,000	2	21	53	24	7.5	0.74
Total S.A.	TOT B	47.74	1.54	177,000		19	57	24	5.6	0.64
<i>Total or Median</i>			<i>1.44</i>	<i>1,218,000</i>			<i>55</i>	<i>24</i>	<i>4.8</i>	<i>0.78</i>
Large Independent										
EOG Resources, Inc.	EOG	90.42	1.15	56,800	11	1	87		0.7	1.17
Occidental Petroleum Corp.	OXY	72.91	1.18	65,700	4	2	86	7	4.1	0.98
Devon Energy Corporation	DVN	37.89	1.55	30,800	25		66	10	0.6	0.89
Marathon Oil Corporation	MRO B	13.18	1.68	18,800	10	2	88		1.5	0.76
ConocoPhillips	COP B	43.45	1.73	94,000	16	13	71		2.3	0.74
<i>Total or Median</i>			<i>1.55</i>	<i>266,000</i>	<i>11</i>		<i>86</i>		<i>1.5</i>	<i>0.89</i>
Small Independent										
Cimarex Energy Company	XEC	129.13	1.11	13,300	34		66		0.2	1.07
Continental Resources (32%)	CLR B	48.91	1.39	8,100	22		78		-	0.91
California Resources	CRC	10.26	17.59	7,200	16		84		-	0.82
Whiting Petroleum Corporation	WLL	8.24	2.85	6,600	10		90		-	0.71
Range Resources	RRC B	33.79	1.52	12,500	76		24		0.2	0.70
<i>Total or Median</i>			<i>1.52</i>	<i>48,000</i>	<i>22</i>		<i>78</i>		<i>-</i>	<i>0.82</i>
Income										
San Juan Basin Royalty Trust	SJT	6.27	1.00	290	100		-		9.3	0.78
Permian Basin RT	PBT	6.90	1.00	320	23		77		10.0	0.63
Dorchester Minerals, L.P.	DMLP B	14.85	1.00	460	28		72		8.4	0.62
Cross Timbers Royalty Trust	CRT	17.57	1.00	110	57		43		7.9	0.60
Sabine Royalty Trust	SBR B	36.20	1.00	530	48		52		8.1	0.60
<i>Total or Median</i>			<i>1.00</i>	<i>1,700</i>	<i>48</i>		<i>52</i>		<i>8.4</i>	<i>0.62</i>
Canada										
EnCana Corporation	ECA	9.54	1.92	17,800	43		57		0.6	1.24
Imperial Oil Limited (30%)	IMO	32.48	1.33	11,000	0		63	36	1.4	0.89
Cenovus Energy Inc.	CVE	14.44	1.33	16,000	10		81	9	1.0	0.78
Suncor Energy	SU B	30.02	1.36	68,200	-		86	14	2.9	0.75
Birchcliff Energy Ltd.	BIREF B	6.33	1.37	2,300	74		26		-	0.70
<i>Total or Median</i>			<i>1.36</i>	<i>115,000</i>			<i>63</i>		<i>1.0</i>	<i>0.78</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										



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Table 2								
McDep Energy Stocks								
Net Present Value and McDep Ratio								
			Price (US\$/sh)	Shares	Market Cap (US\$mm)	Net Present Value (US\$/sh)	Debt/ Present Value	McDep Ratio
	Symbol/Rating		31-Oct 2016	(mm)				
	B = Buy							
Global Integrated								
Exxon Mobil Corporation	XOM		83.32	4,178	348,000	100.00	0.18	0.86
Chevron Corporation	CVX		104.75	1,883	197,000	135.00	0.21	0.82
Royal Dutch Shell	RDS-A	B	49.81	3,980	198,000	80.00	0.30	0.74
Total S.A.	TOT	B	47.74	2,404	115,000	90.00	0.22	0.64
	<i>Total or Median</i>				858,000		0.22	0.78
Large Independent								
EOG Resources, Inc.	EOG		90.42	547	49,500	75.00	0.15	1.17
Occidental Petroleum Corp.	OXY		72.91	764	55,700	75.00	0.15	0.98
Devon Energy Corporation	DVN		37.89	524	19,900	45.00	0.32	0.89
Marathon Oil Corporation	MRO	B	13.18	848	11,180	20.00	0.31	0.76
ConocoPhillips	COP	B	43.45	1,246	54,000	70.00	0.31	0.74
	<i>Total or Median</i>				190,300		0.31	0.89
Small Independent								
Cimarex Energy Company	XEC		129.13	93	12,000	120.00	0.10	1.07
Continental Resources (32%)	CLR	B	48.91	118	5,800	56.00	0.26	0.91
California Resources	CRC		10.26	40	400	50.00	0.77	0.82
Whiting Petroleum Corporation	WLL		8.24	281	2,300	18.00	0.46	0.71
Range Resources	RRC	B	33.79	244	8,200	56.00	0.24	0.70
	<i>Total or Median</i>				29,000		0.26	0.82
Income								
San Juan Basin Royalty Trust	SJT		6.27	47	290	8.00	-	0.78
Permian Basin RT	PBT		6.90	47	320	11.00	-	0.63
Dorchester Minerals, L.P.	DMLP	B	14.85	31	460	24.00	-	0.62
Cross Timbers Royalty Trust	CRT		17.57	6	110	29.00	-	0.60
Sabine Royalty Trust	SBR	B	36.20	15	530	60.00	-	0.60
	<i>Total or Median</i>				1,700		-	0.62
Canada								
EnCana Corporation	ECA		9.54	973	9,300	6.00	0.59	1.24
Imperial Oil Limited (30%)	IMO		32.48	255	8,300	38.00	0.22	0.89
Enovus Energy Inc.	CVE		14.44	833	12,000	20.00	0.19	0.78
Suncor Energy	SU	B	30.02	1,666	50,000	44.00	0.20	0.75
Birchcliff Energy Ltd.	BIREF	B	6.33	263	1,700	10.00	0.19	0.70
	<i>Total or Median</i>				81,000		0.20	0.78
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								
NPV Change Since October 26: Suncor \$35 to \$44, Whiting \$12 to \$18.								



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Table 3								
McDep Energy Stocks								
Value Multiples and Dividend								
Ranked by EV/Ebitda								
			Price (US\$/sh)	Adjustd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda	P/E	Dividend
	Symbol/Rating		31-Oct 2016	NTM	NTM	NTM	NTM	NTM (\$/sh)
	B = Buy							
Global Integrated								
Exxon Mobil Corporation	XOM		83.32	15.0	12.2	10.6	25	3.00
Chevron Corporation	CVX		104.75	9.8	11.7	9.6	35	4.32
Royal Dutch Shell	RDS-A	B	49.81	9.8	10.8	8.0	25	3.76
Total S.A.	TOT	B	47.74	9.9	10.4	6.6	13	2.66
	<i>Median</i>			9.8	11.3	8.8	25	
Large Independent								
EOG Resources, Inc.	EOG		90.42	8.2	13.2	15.5		0.67
Occidental Petroleum Corp.	OXY		72.91	8.3	14.0	13.7		3.00
Devon Energy Corporation	DVN		37.89	8.4	15.1	13.5		0.24
Marathon Oil Corporation	MRO	B	13.18	12.7	14.0	10.7		0.20
ConocoPhillips	COP	B	43.45	10.9	13.6	10.1		1.00
	<i>Median</i>			8.4	14.0	13.5		
Small Independent								
Continental Resources (32%)	CLR	B	48.91	11.4	17.0	15.4		-
Cimarex Energy Company	XEC		129.13	6.9	13.9	14.9		0.32
Range Resources	RRC	B	33.79	12.2	18.7	13.0		0.08
California Resources	CRC		10.26	12.0	13.2	10.8		-
Whiting Petroleum Corporation	WLL		8.24	9.3	11.5	8.1		-
	<i>Median</i>			11.4	13.9	13.0		
Income								
Sabine Royalty Trust	SBR	B	36.20	9.1	20.4	12.3	12	2.93
Dorchester Minerals, L.P.	DMLP	B	14.85	7.0	18.0	11.1	15	1.25
Cross Timbers Royalty Trust	CRT		17.57	8.1	18.4	11.1	13	1.39
San Juan Basin Royalty Trust	SJT		6.27	10.4	13.2	10.3	11	0.58
Permian Basin RT	PBT		6.90	8.5	15.0	9.4	10	0.69
	<i>Median</i>			8.5	18.0	11.1	12	
Canada								
EnCana Corporation	ECA		9.54	5.6	11.5	14.2		0.06
Imperial Oil Limited (30%)	IMO		32.48	32.1	10.5	9.3		0.45
Cenovus Energy Inc.	CVE		14.44	16.3	11.6	9.0		0.15
Birchcliff Energy Ltd.	BIREF	B	6.33	12.9	12.2	8.6		-
Suncor Energy	SU	B	30.02	20.7	11.4	8.5		0.86
	<i>Median</i>			16.3	11.5	9.0		
	<i>Grand Median</i>			10	13	11		

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 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



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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.		31-Oct	31-Dec	Change	Distrib.	Return	Return	Ratio	
			2016	2015	(%)	(%)	(%)	(\$/sh)	(%)	
Global Integrated										
	Chevron Corporation	CVX	104.75	89.96	16	4	20	35	14	0.82
	Royal Dutch Shell	RDS-A B	49.81	45.79	9	6	15	34	9	0.74
	Exxon Mobil Corporation	XOM	83.32	77.95	7	3	10	23	8	0.86
	Total S.A.	TOT B	47.74	44.95	6	5	11	26	7	0.64
	<i>Median</i>				8		13		8	0.78
Large Independent										
	EOG Resources, Inc.	EOG	90.42	70.79	28	1	29	13	24	1.17
	Devon Energy Corporation	DVN	37.89	32.00	18	1	20	21	12	0.89
	Occidental Petroleum Corp.	OXY	72.91	67.61	8	3	11	13	9	0.98
	Marathon Oil Corporation	MRO B	13.18	12.58	5	1	6	9	3	0.76
	ConocoPhillips	COP B	43.45	46.69	(7)	2	(5)	32	(3)	0.74
	<i>Median</i>				8		11		9	0.89
Small Independent										
	Continental Resources (32%)	CLR B	48.91	22.98	113	-	113	19	62	0.91
	Cimarex Energy Company	XEC	129.13	89.38	44	0	45	14	39	1.07
	Range Resources	RRC B	33.79	24.62	37	0	37	18	22	0.70
	Whiting Petroleum Corporation	WLL	8.24	9.44	(13)	-	(13)	15	(5)	0.71
	California Resources	CRC	10.26	23.30	(56)	-	(56)	170	(7)	0.82
	<i>Median</i>				37		37		22	0.82
Income										
	Dorchester Minerals, L.P.	DMLP B	14.85	9.89	50	6	56	-	56	0.62
	San Juan Basin Royalty Trust	SJT	6.27	4.14	51	4	55	-	55	0.78
	Sabine Royalty Trust	SBR B	36.20	26.26	38	6	44	-	44	0.60
	Permian Basin RT	PBT	6.90	5.06	36	6	42	-	42	0.63
	Cross Timbers Royalty Trust	CRT	17.57	13.01	35	7	42	-	42	0.60
	<i>Median</i>				38		44		44	0.62
Canada										
	Birchcliff Energy Ltd.	BIREF B	6.33	2.93	116	-	116	2	64	0.70
	EnCana Corporation	ECA	9.54	5.09	87	1	88	9	32	1.24
	Suncor Energy	SU B	30.02	25.80	16	3	19	11	13	0.75
	Cenovus Energy Inc.	CVE	14.44	12.62	14	1	15	5	11	0.78
	Imperial Oil Limited (30%)	IMO	32.48	32.52	(0)	1	1	11	1	0.89
	<i>Median</i>				16		19		13	0.78
	<i>Grand Median</i>				17		20		14	0.77
	Natural Gas (\$/mmbtu)		3.02	2.33	30					
	Oil - West Texas Intermediate (\$/bbl)		46.70	37.06	26					
	S&P 500		2,126	2,044	4					
Source: McDep LLC, Yahoo, CME Group, Bloomberg					For historical research see www.mcdep.com					



Independent Stock Idea

October 31, 2016



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