



# Independent Stock Idea

April 23, 2009

rating: hold  
s&p 500: 844

## Suncor Energy (SU) Acquiring Financial Strength

<i>Symbol</i>	SU	<i>Ebitda Next Twelve Months ending 3/31/10 (US\$mm)</i>	7,200
<i>Rating</i>	Hold	<i>North American Natural Gas/Ebitda (%)</i>	8
<i>Price (US\$/sh)</i>	23.75	<i>Natural Gas and Oil Production/Ebitda (%)</i>	89
<i>Pricing Date</i>	4/22/09	<i>Adjusted Reserves/Production NTM</i>	12.0
<i>Shares (mm) - Pro-Forma</i>	1564	<i>EV/Ebitda</i>	7.2
<i>Market Capitalization (US\$mm)</i>	37,100	<i>PV/Ebitda</i>	13.3
<i>Debt (US\$mm)</i>	14,700	<i>Undeveloped Reserves (%)</i>	30
<i>Enterprise Value (EV) (US\$mm)</i>	51,800	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	27.51
<i>Present Value (PV) (US\$mm)</i>	96,000	<i>Present Value Proven Reserves(US\$/boe)</i>	26.96
<i>Net Present Value (US\$/share)</i>	52	<i>Present Value Proven Reserves(US\$/mcfe)</i>	4.49
<i>Debt/Present Value</i>	0.15	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.38
<i>McDep Ratio - EV/PV</i>	0.54	<i>Price/Earnings Next Twelve Months</i>	17
<i>Dividend Yield (%/year)</i>	0.7	<i>Indicated Annual Dividend (US\$/sh)</i>	0.16
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, \$10 a million btu.			
For historical analysis of SU since 2004 see <a href="http://www.mcdep.com/2su.htm">www.mcdep.com/2su.htm</a>			

### Summary and Recommendation

Hold-rated **Suncor Energy (SU)** offers unlevered appreciation potential of 85% to a McDep Ratio of 1.0 and levered appreciation potential of 119% to Net Present Value (NPV) of \$52 a share. Valuation estimates presume the acquisition of Petro-Canada will be approved in shareholder meetings on June 4. During the first quarter, according to results released today, Suncor generated cash of about US\$16 a barrel as the difference between oil price of about US\$43 and cash operating costs of about US\$27. It looks like the first quarter was the low point from which results can build with rising 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 \$60 billion of Present Value for Suncor's integrated oil sands, natural gas and downstream operations (see table [Suncor - Functional Cash Flow and Present Value](#)). That is close to our estimate of \$58 billion for the Syncrude oil sands mine/upgrader, a closely comparable venture. 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](#)). As the largest Canadian oil company, the new entity will be strong enough to compete with the world's largest oil companies, which are not constrained from making new investments in weakened financial markets. Finally, pointing to expected oil price recovery, futures prices for the next six years averaged US\$66 a barrel recently (see chart [Six-Year Commodity Price Meter](#)).

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<b>Suncor</b>										
<b>Next Twelve Months Operations</b>										
(Canadian Dollars)										
									<i>Next Twelve Months</i>	
	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>2009E</i>	<i>3/31/10</i>
	<i>3/31/08</i>	<i>12/31/08</i>	<i>2008</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>2009E</i>	<i>3/31/10</i>
<b>Volume</b>										
Natural Gas (mmcf)	209	195	<b>202</b>	200	200	200	200	<b>200</b>	<b>200</b>	<b>200</b>
Days	91	92	<b>366</b>	90	91	92	92	<b>365</b>	<b>365</b>	<b>365</b>
Oil (mbd)	248	265	<b>230</b>	247	280	300	320	<b>287</b>	<b>287</b>	<b>305</b>
Total gas & oil (bcf)	155	164	<b>579</b>	151	171	184	195	<b>701</b>	<b>701</b>	<b>741</b>
Total gas & oil (mbd))	283	298	<b>264</b>	280	313	333	353	<b>320</b>	<b>320</b>	<b>338</b>
<b>Price</b>										
Natural gas (\$/mcf)										
Henry Hub (\$/mmbtu)	8.02	6.95	<b>9.04</b>	4.90	3.61	3.94	4.85	<b>4.32</b>	<b>4.32</b>	<b>4.55</b>
Currency (US\$/C\$)	1.00	0.83	<b>0.95</b>	0.81	0.81	0.81	0.81	<b>0.81</b>	<b>0.81</b>	<b>0.81</b>
Henry Hub (C\$/mmbtu)	8.05	8.40	<b>9.54</b>	6.05	4.46	4.86	5.99	<b>5.34</b>	<b>5.34</b>	<b>5.63</b>
Company	7.30	6.90	<b>8.23</b>	5.61	4.14	4.51	5.56	<b>4.95</b>	<b>4.95</b>	<b>5.21</b>
Oil (\$/bbl)										
WTI Cushing	97.94	58.45	<b>99.59</b>	42.96	47.65	52.28	55.61	<b>49.62</b>	<b>49.62</b>	<b>53.40</b>
WTI Cushing (C\$/bbl)	98.40	70.62	<b>104.25</b>	53.07	58.87	64.60	68.71	<b>61.31</b>	<b>61.31</b>	<b>65.98</b>
Company	95.79	60.94	<b>95.99</b>	52.61	54.20	59.48	63.26	<b>57.80</b>	<b>57.80</b>	<b>60.97</b>
Total gas & oil (\$/mcf)	14.90	9.80	<b>15.01</b>	8.39	8.51	9.37	10.07	<b>9.15</b>	<b>9.15</b>	<b>9.67</b>
NY Harbor 3-2-1 (\$/bbl)	7.57	5.10	<b>9.86</b>	9.18	10.47	7.76	3.55	<b>7.74</b>	<b>7.74</b>	<b>6.99</b>
<b>Revenue (\$mm)</b>										
Natural Gas	139	124	<b>607</b>	101	75	83	102	<b>362</b>	<b>362</b>	<b>380</b>
Oil	2,165	1,486	<b>8,083</b>	1,167	1,381	1,642	1,862	<b>6,052</b>	<b>6,052</b>	<b>6,788</b>
Other	3,684	5,586	<b>21,399</b>	3,546	3,546	3,546	3,546	<b>14,184</b>	<b>14,184</b>	<b>14,184</b>
Total	5,988	7,196	<b>30,089</b>	4,814	5,002	5,270	5,511	<b>20,597</b>	<b>20,597</b>	<b>21,352</b>
<b>Expense</b>										
	4,481	6,127	<b>23,975</b>	4,092	4,174	4,231	4,312	<b>16,809</b>	<b>16,809</b>	<b>16,997</b>
<b>Ebitda (\$mm)</b>										
Exploration and Production	1,303	1,193	<b>5,693</b>	506	738	969	1,161	<b>3,373</b>	<b>3,373</b>	<b>4,099</b>
Other	205	(124)	<b>421</b>	216	91	71	38	<b>416</b>	<b>416</b>	<b>255</b>
Total Ebitda	1,507	1,069	<b>6,114</b>	722	828	1,040	1,199	<b>3,788</b>	<b>3,788</b>	<b>4,354</b>
Exploration	12	17	<b>90</b>	7	7	7	7	<b>28</b>	<b>28</b>	<b>41</b>
Deprec., Deplet., & Amort.	248	282	<b>1,077</b>	302	302	302	302	<b>1,208</b>	<b>1,208</b>	<b>1,208</b>
<b>Ebit</b>										
	1,247	770	<b>4,947</b>	413	519	731	890	<b>2,552</b>	<b>2,552</b>	<b>3,105</b>
Interest	61	103	<b>307</b>	64	64	64	64	<b>256</b>	<b>256</b>	<b>256</b>
<b>Ebt</b>										
	1,186	667	<b>4,639</b>	349	455	667	826	<b>2,296</b>	<b>2,296</b>	<b>2,849</b>
Income Tax	415	234	<b>1,624</b>	122	159	233	289	<b>804</b>	<b>804</b>	<b>997</b>
<b>Net Income (\$mm)</b>										
Exploration and Production	714	575	<b>2,964</b>	(120)						
Other	95	(181)	<b>51</b>	150						
Unallocated	(38)	40	<b>0</b>	197						
Total	771	434	<b>3,015</b>	227	296	433	537	<b>1,493</b>	<b>1,493</b>	<b>1,852</b>
<b>Shares (millions)</b>										
	946	943	<b>950</b>	944	944	944	944	<b>944</b>	<b>944</b>	<b>944</b>
Per share (\$)	0.82	0.46	<b>3.18</b>	0.24	0.31	0.46	0.57	<b>1.58</b>	<b>1.58</b>	<b>1.96</b>
Ebitda Margin (E&P)	57%	74%	<b>66%</b>	40%	51%	56%	59%	<b>53%</b>	<b>53%</b>	<b>57%</b>
Tax Rate	35%	35%	<b>35%</b>	35%	35%	35%	35%	<b>35%</b>	<b>35%</b>	<b>35%</b>



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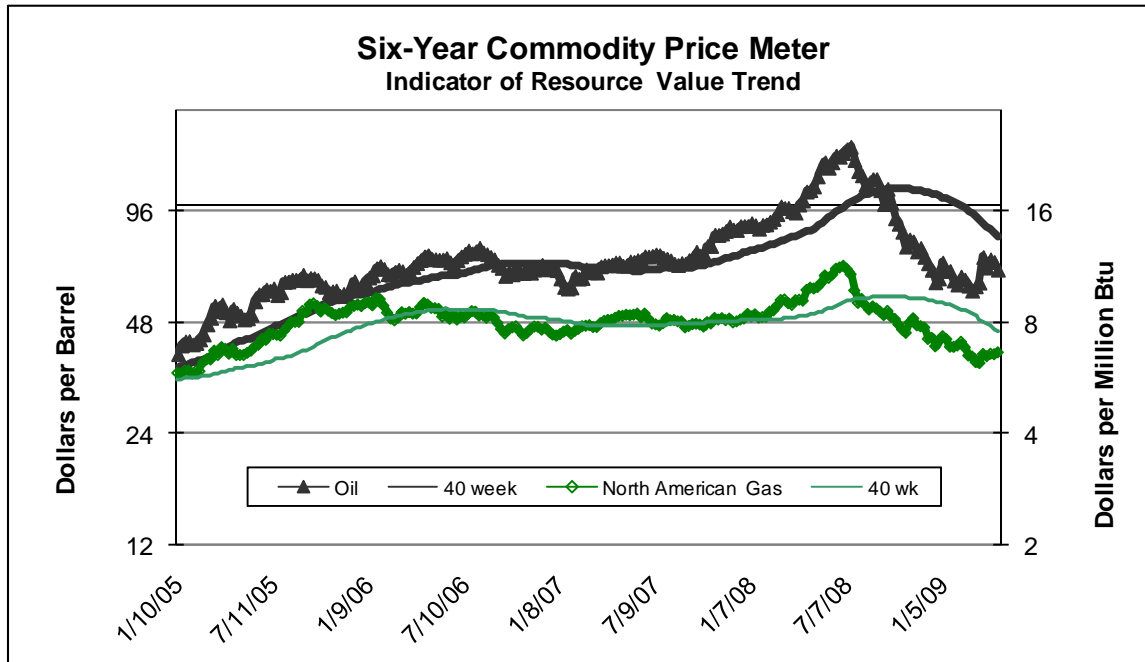
<b>Suncor</b>					
<b>Functional Cash Flow and Present Value</b>					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	150	7.2	11.3	1,700	3%
Oil	3,160	18.9	18.2	57,400	94%
Downstream	210		9.5	2,000	3%
	3,520	17.9	17.4	61,100	100%
Debt (US\$mm)					9,100
Net Present Value (US\$mm)					52,000
Shares (mm)					944
Net Present Value - Standard Estimate (US\$/sh)					55

<b>Suncor Pro-Forma</b>					
<b>Functional Cash Flow and Present Value</b>					
	<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>	
North American Natural Gas	544	6.0	10.3	5,600	6%
Rest of World Natural Gas	153	3.3	6.5	1,000	1%
Oil	5,713	13.6	14.4	82,400	86%
Downstream	790		8.9	7,000	7%
	7,200	12.0	13.3	96,000	100%
Debt (US\$mm)					14,700
Net Present Value (US\$mm)					81,300
Shares (mm)					1,564
Net Present Value - Standard Estimate (US\$/sh)					52



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