



Independent Stock Idea

November 6, 2009

rating: buy
s&p 500: 1069

Suncor Energy (SU) Expects to Keep 12% Syncrude

| | | | |
|---|---------|--|-------|
| <i>Symbol</i> | SU | <i>Ebitda Next Twelve Months ending 6/30/10 (US\$mm)</i> | 9,500 |
| <i>Rating</i> | Buy | <i>North American Natural Gas/Ebitda (%)</i> | 6 |
| <i>Price (US\$/sh)</i> | 32.94 | <i>Natural Gas and Oil Production/Ebitda (%)</i> | 87 |
| <i>Pricing Date</i> | 11/6/09 | <i>Adjusted Reserves/Production NTM</i> | 13.9 |
| <i>Shares (mm)</i> | 1572 | <i>EV/Ebitda</i> | 7.3 |
| <i>Market Capitalization (US\$mm)</i> | 51,800 | <i>PV/Ebitda</i> | 10.5 |
| <i>Debt (US\$mm)</i> | 17,700 | <i>Undeveloped Reserves (%)</i> | 30 |
| <i>Enterprise Value (EV) (US\$mm)</i> | 69,500 | <i>Natural Gas and Oil Ebitda (US\$/boe)</i> | 34.60 |
| <i>Present Value (PV) (US\$mm)</i> | 99,500 | <i>Present Value Proven Reserves(US\$/boe)</i> | 26.46 |
| <i>Net Present Value (US\$/share)</i> | 52 | <i>Present Value Proven Reserves(US\$/mcfe)</i> | 4.41 |
| <i>Debt/Present Value</i> | 0.18 | <i>Earnings Next Twelve Months (US\$/sh)</i> | 1.32 |
| <i>McDep Ratio - EV/PV</i> | 0.70 | <i>Price/Earnings Next Twelve Months</i> | 25 |
| <i>Dividend Yield (%/year)</i> | 1.1 | <i>Indicated Annual Dividend (US\$/sh)</i> | 0.37 |
| 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, \$8 a million btu. | | | |
| For historical analysis of SU since 2004 see www.mcdep.com/2su.htm | | | |

Summary and Recommendation

Analyzing third quarter results released today, we reaffirm estimated Net Present Value (NPV) of US\$52 a share for buy-recommended **Suncor Energy (SU)**. On that basis unlevered appreciation potential is 43% to a McDep Ratio of 1.0 where stock price would equal NPV. Unlevered cash flow (Ebitda) was less than expectations in what Chief Executive Rick George characterizes as a “messy” quarter. Planned and unplanned maintenance reduced volumes and increased costs. Former Petro-Canada operations included for only two-thirds of the third quarter, because the deal was not effective until August 1, will contribute fully in future quarters (see table Next Twelve Months Operating and Financial Estimates). Future production volume might be 10% lower than otherwise after likely sales of natural gas properties and minor oil properties, mostly outside Canada. After that, NPV will likely remain concentrated on oil near the current 85% (see table Functional Cash Flow and Present Value). Suncor’s 12% of Syncrude is not for sale. Mr. George likes the window it opens to the innovations of a competitor and the availability of its high quality product to back up and complement Suncor’s marketing effort. Similarly, oil sands leases are not for sale as Suncor may acquire other oil sands leases in the role of a consolidator. Meanwhile, the commodity price outlook appears positive with futures prices for the next six years for oil trading above the 40-week average (see chart Six-Year Commodity Price Meter).

Kurt H. Wulff, CFA



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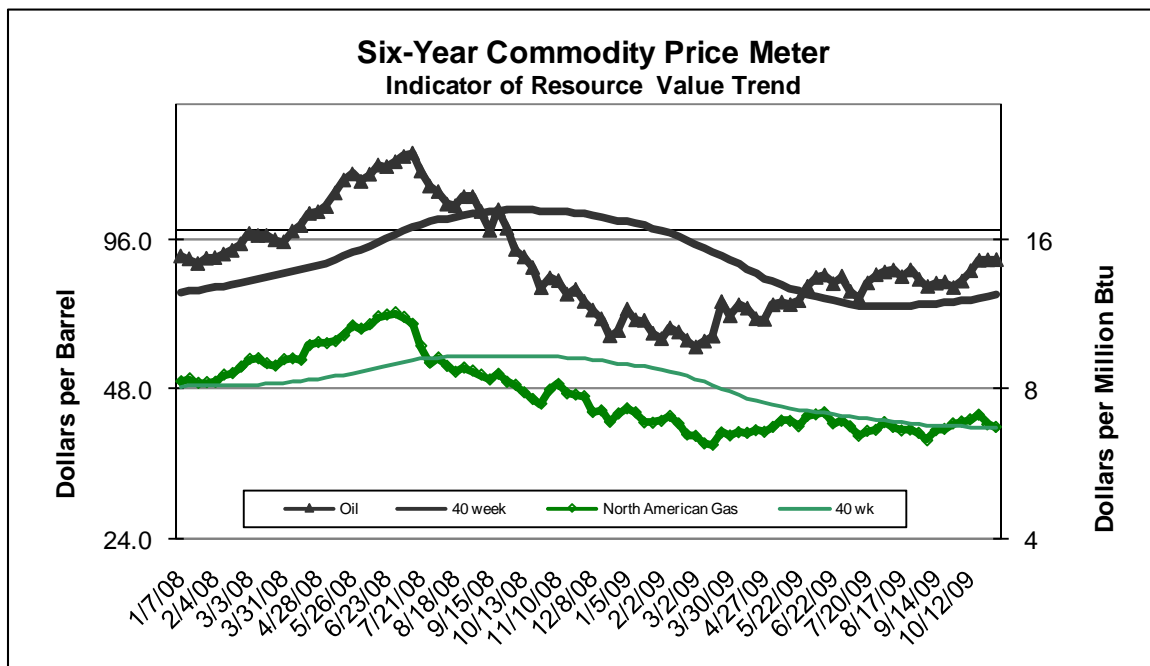
| Suncor | | | | | | | | | |
|---|----------------|----------------|----------------|-----------------|---------------|----------------|----------------|----------------|-----------------------------------|
| Next Twelve Months Operating and Financial Estimates | | | | | | | | | |
| (Canadian Dollars) | | | | | | | | | |
| | | | | | | | | | <i>Next Twelve Months</i> |
| | <i>Q3</i> | <i>Q2</i> | <i>Q3</i> | <i>Q4E</i> | <i>Year</i> | <i>Q1E</i> | <i>Q2E</i> | <i>Q3E</i> | <i>9/30/10</i> |
| | <i>9/30/08</i> | <i>6/30/09</i> | <i>9/30/09</i> | <i>12/31/09</i> | <i>2009E</i> | <i>3/31/10</i> | <i>6/30/10</i> | <i>9/30/10</i> | <i>9/30/10</i> |
| Volume | | | | | | | | | |
| Natural Gas (mmcf) | 197 | 192 | 517 | 682 | 399 | 682 | 682 | 682 | 682 |
| Days | 92 | 91 | 92 | 92 | 365 | 90 | 91 | 92 | 365 |
| Oil (mbd) | 222 | 289 | 443 | 542 | 381 | 542 | 542 | 542 | 542 |
| Total gas & oil (bcf) | 140 | 175 | 292 | 362 | 980 | 354 | 358 | 362 | 1,436 |
| Total gas & oil (mmbd)) | 254 | 321 | 529 | 656 | 448 | 656 | 656 | 656 | 656 |
| Price | | | | | | | | | |
| Natural gas (\$/mcf) | | | | | | | | | |
| Henry Hub (\$/mmbtu) | 10.25 | 3.50 | 3.39 | 4.28 | 4.02 | 5.20 | 5.28 | 5.54 | 5.07 |
| Currency (US\$/C\$) | 0.96 | 0.86 | 0.91 | 0.94 | 0.87 | 0.94 | 0.94 | 0.94 | 0.94 |
| Henry Hub (C\$/mmbtu) | 10.66 | 4.08 | 3.72 | 4.56 | 4.61 | 5.54 | 5.62 | 5.90 | 5.40 |
| Company | 9.10 | 3.52 | 2.79 | 3.72 | 3.63 | 4.52 | 4.59 | 4.82 | 4.41 |
| Oil (\$/bbl) | | | | | | | | | |
| WTI Cushing | 117.99 | 59.52 | 68.22 | 77.22 | 61.98 | 79.30 | 81.15 | 82.28 | 79.99 |
| WTI Cushing (C\$/bbl) | 122.77 | 69.38 | 74.83 | 82.22 | 69.96 | 84.45 | 86.41 | 87.61 | 85.17 |
| Company | 116.90 | 63.54 | 63.92 | 70.24 | 64.31 | 72.14 | 79.43 | 80.53 | 75.59 |
| Total gas & oil (\$/mcf) | 18.14 | 9.89 | 9.37 | 10.32 | 9.66 | 10.72 | 11.74 | 11.93 | 11.18 |
| NY Harbor 3-2-1 (\$/bbl) | 11.84 | 9.49 | 9.45 | 7.96 | 9.02 | 7.03 | 10.05 | 8.53 | 8.39 |
| Revenue (\$mm) | | | | | | | | | |
| Natural Gas | 165 | 62 | 133 | 234 | 529 | 278 | 285 | 303 | 1,099 |
| Oil | 2,383 | 1,671 | 2,606 | 3,503 | 8,946 | 3,519 | 3,918 | 4,016 | 14,955 |
| Other | 6,398 | 3,326 | 5,705 | 6,000 | 18,577 | 6,000 | 6,000 | 6,000 | 24,000 |
| Total | 8,946 | 5,058 | 8,443 | 9,736 | 28,051 | 9,797 | 10,203 | 10,318 | 40,053 |
| Expense (\$mm) | | | | | | | | | |
| Exploration and Production | 1,760 | 818 | 1,276 | 2,055 | 4,663 | 2,088 | 2,311 | 2,375 | 8,829 |
| Other | 133 | 128 | 125 | 190 | 650 | 433 | 417 | 235 | 1,275 |
| Total Ebitda | 1,893 | 946 | 1,401 | 2,245 | 5,313 | 2,521 | 2,728 | 2,610 | 10,104 |
| Exploration | 30 | 32 | 129 | 150 | 318 | 150 | 150 | 150 | 600 |
| Deprec., Deplet., & Amort. | 279 | 340 | 666 | 1,360 | 2,668 | 1,360 | 1,360 | 1,360 | 5,440 |
| Other | | 562 | | | 562 | | | | - |
| Ebit | 1,584 | 12 | 606 | 735 | 1,765 | 1,011 | 1,218 | 1,100 | 4,064 |
| Interest | 74 | 99 | 160 | 180 | 503 | 180 | 180 | 180 | 720 |
| Ebt | 1,510 | (87) | 446 | 555 | 1,262 | 831 | 1,038 | 920 | 3,344 |
| Income Tax | 529 | (31) | 156 | 194 | 442 | 291 | 363 | 322 | 1,171 |
| Net Income (\$mm) | | | | | | | | | |
| Exploration and Production | 872 | (335) | 698 | | | | | | |
| Other | 46 | 72 | 51 | | | | | | |
| Unallocated | 64 | 206 | (459) | | | | | | |
| Total | 982 | (57) | 290 | 361 | 820 | 540 | 675 | 598 | 2,174 |
| Shares (millions) | | | | | | | | | |
| 9/30/08 | 953 | 947 | 1,261 | 1,572 | 1,283 | 1,572 | 1,572 | 1,572 | 1,572 |
| Per share (\$) | 1.03 | (0.06) | 0.23 | 0.23 | 0.64 | 0.34 | 0.43 | 0.38 | 1.38 |
| Ebitda Margin (E&P) | 69% | 47% | 47% | 55% | 49% | 55% | 55% | 55% | 55% |
| Tax Rate | 35% | 35% | 35% | 35% | 35% | 35% | 35% | 35% | 35% |



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| Suncor | | | | | |
|---|------------|----------|--------|----------|--------|
| Functional Cash Flow and Present Value | | | | | |
| | NTM Ebitda | Adjusted | PV/ | Present | |
| | (US\$mm) | R/P | Ebitda | Value | |
| | | | | (US\$mm) | |
| Natural Gas | 520 | 8.0 | 9.6 | 5,000 | 5% |
| Oil | 7,770 | 15.0 | 10.9 | 84,700 | 85% |
| Downstream | 1,200 | | 8.3 | 10,000 | 10% |
| | 9,490 | 13.9 | 10.5 | 99,700 | 100% |
| Debt (US\$mm) | | | | | 17,900 |
| Net Present Value (US\$mm) | | | | | 81,800 |
| Shares (mm) | | | | | 1,572 |
| Net Present Value - Standard Estimate (US\$/sh) | | | | | 52 |





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Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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