

# Suncor Equity Research

## Report



Energy Sector  
10/21/2011

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Stock Rating:

**BUY**

Sector Weighting:

**N/A**

Limit Buy Price: \$27.50

Price Target: \$33.00

Target Price Date: 03/31/2012

### COMPANY MARKET STATISTICS

Ticker: SU

Exchange: TSE

Fiscal Year End: December

52-week range (High/Low): \$23.97/\$47.27

Shares Outstanding 1.57B

Avg. Daily Trading Vol. 6.33M

Market Capitalization \$47.55B

Annual Dividend \$0.44

Dividend Yield 1.46%

Price/Earnings 16.41

Enterprise Value \_\_\_\_\_

EBITDA \_\_\_\_\_

Price to Book 1.28

BETA 1.74

Short Interest % \_\_\_\_\_

### REVENUE BREAKDOWN

Oil Sands: 56.9%

International: 37.6%

Natural Gas: 5.5%

### ANNUAL EARNINGS PER SHARE (EPS)

Current Year \$1.89

2010 \$2.29

2009 \$0.96

2008 \$2.29

### HIGHLIGHTS

- Large Market Capitalization
- Stable and Profitable
- Recently traded @ 52 week low

### OVERVIEW

Suncor Energy Inc. (Suncor) is an integrated energy company. It explores for, acquires, develops, produces and markets crude oil and natural gas in Canada and internationally, and it transports and refines crude oil and market petroleum and petrochemical products primarily in Canada. It is focused on developing petroleum resource basins, which includes Canada's Athabasca oil sands. The Company also markets third-party petroleum products. It also carries on energy trading activities focused principally on marketing and trading of crude oil, natural gas, refined products and byproducts, and the use of financial derivatives. Suncor operates in business units, which include Oil Sands, Natural Gas, International and Offshore, and Refining and Marketing. During the year ended December 31, 2010, it sold of all of its United States Rockies upstream assets, sold of Blueberry and Jedney, Rosevear and Pine Creek, sold Trinidad and Tobago assets, and sold of its Wildcat Hills.



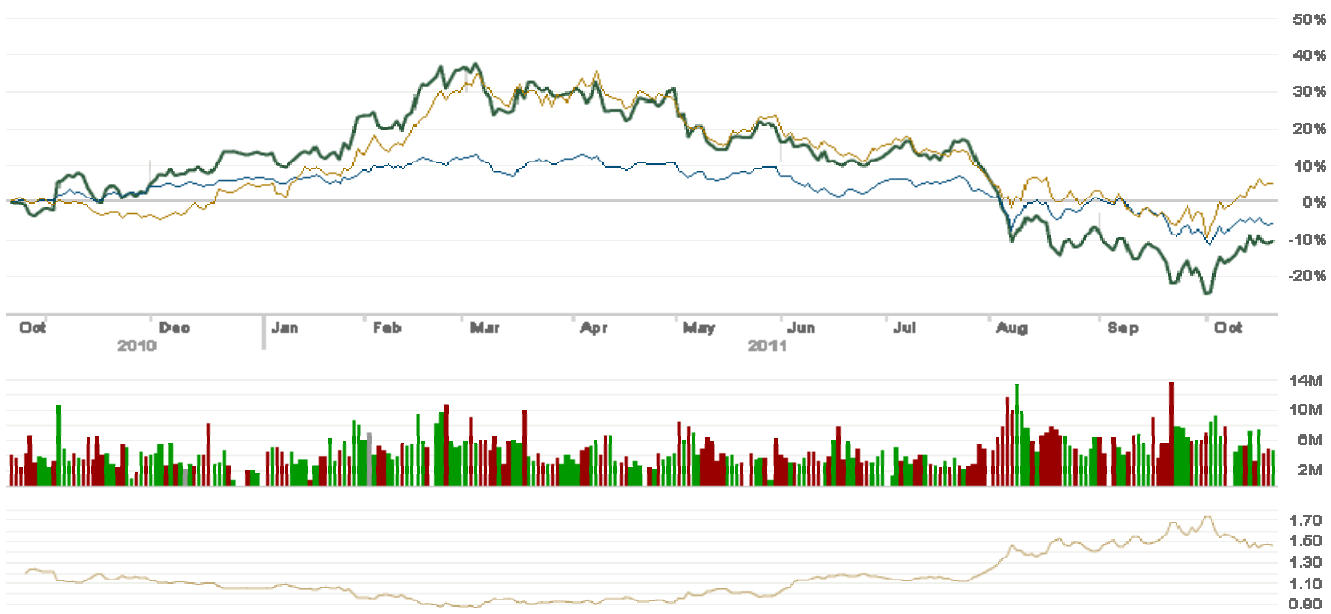
## PRICE CHARTS

### 1 Year Price Chart



52 week range is \$23.97 to \$47.27; recently hit 52 week low (buying opportunity). Bar charts are volume. Brown trend line beneath volume is dividend yield in %.

### 1 Year Price Comparison to Imperial Oil (tan) and TSX Index (blue)



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Suncor has had the largest price decline amongst comparators. The bar chart is SU volume. The trend line below the volume chart is dividend yield which moves inversely to stock price.

## NEWS AND EVENTS

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Suncor Energy (SU) Trading Near \$28.16 Support Level

Posted: Friday, October 21, 2011 7:59 AM EDT



Suncor Energy Inc. (NYSE: SU) closed Thursday's trading session at \$29.51. In the past year, the stock has hit a 52-week low of \$22.55 and 52-week high of \$48.53. Suncor Energy ([SU](#)) stock has been showing support around \$28.16 and resistance in the \$30.62 range. Technical indicators for the stock are Bullish and S&P gives Suncor Energy ([SU](#)) a neutral 3 STARS (out of 5) hold rating.

OCTOBER 21, 2011, 12:52 P.M. ET

### Suncor's Libya JV To Load First Oil Tanker After Output Resumed-NOC Head

LONDON (DOW JONES)--The Libyan joint venture of Canada's Suncor Energy Inc. (SU) is to load its first tanker soon after its production resumed two weeks ago, the North African country's oil head said Friday.

In an interview with Dow Jones Newswires, Nuri Berruien, chairman of Libya's National Oil Co., said NOC is set to sell the first crude cargo from Harouge Oil Operations, in which Suncor has 49%, after production resumed at its Amal field two weeks ago.

## COMPANY RISK

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S&P assigns Suncor Energy 'A-2'

(The following statement was released by the rating agency)

We are assigning our 'A-2' global short-term rating to Suncor Energy Inc.

The rating reflects our assessment of the company's liquidity and ability to maintain 100% back-stop for all commercial paper maturities on a same day basis.

We expect the company will remain onside with our liquidity criteria for all short-term debt issuances at the 'A-2' rating level.

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Health, safety and environmental risks:

Health, safety and environmental issues have risen on the oil and gas industry's agenda, reflecting both increased public pressure and more complex operational challenges.

Access to reserves: political constraints and competition for proven reserves

Oil and gas companies are more likely than those in any other sector to report difficulties in managing the risks associated with the expansion of government's role.

Price volatility:

The unrest in the Middle East and North Africa region in the first half of 2011 resulted in an oil price surge. Of course, given the increase in exploration and production costs, volatility on the downside poses an equal or greater challenge.

New technologies:

In addition to new technologies for exploration and production, the sector is impacted by broader technological advancements, such as alternative power generation and the electrification of energy delivery.

Rising emerging market demand:

Oil and gas respondents have encountered challenges in their efforts to tap expanding emerging market demand. However, many oil and gas companies are making significant investments to achieve growth in emerging markets

BETA	S&P Rating
1.74	A2

## PEER COMPARISON

Company	Ticker	Market Cap	P/E Ratio (TTM)	EPS Growth (5yr)
Suncor Energy Inc	SU	47.1B	15.80x	-14.04
Cenovus Energy Inc	CVE	26.5B	26.80x	0.00%
Husky Energy Inc	HSE	23.6B	11.40x	-15.63%
Imperial Oil Ltd	IMO	34.7B	12.70x	-4.25%
Provident Energy Ltd	PVE	2.5B	25.60x	-13.52%

Suncor is dividend paying, has large market capitalization, and has a favourable price to earnings ratio.

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## REVENUE AND EARNINGS

The following information relates to Suncor Inc. (SU) revenue and earnings. All values in C\$ Millions except EPS.

### Revenue

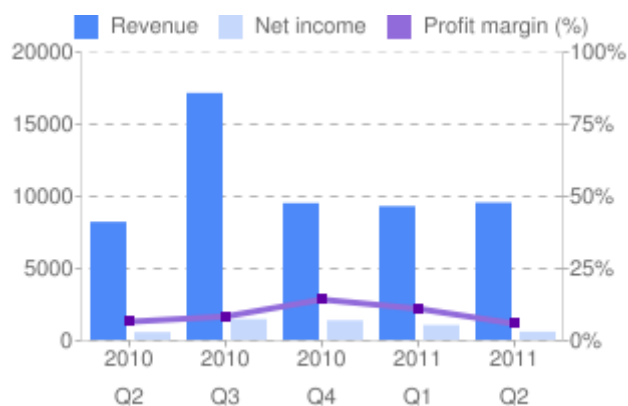
	Q1	Q2	Q3	Q4	Total
<b>2011</b>	\$ 9,388.00	\$ 9,587.00			
<b>2010</b>	\$ 7,409.00	\$ 8,461.00	\$ 8,691.00	\$ 9,789.00	\$ 34,350.00
<b>2009</b>					\$ 28,848.00
<b>2008</b>					\$ 28,446.00

### Net Income

	Q1	Q2	Q3	Q4	Annual Total
<b>2011</b>	\$1,028	\$ 562.00			
<b>2010</b>	\$779.00	\$ 540.00	\$ 899.00	\$ 1,353.00	\$ 3,571.00
<b>2009</b>	-	-	-	-	\$ 1,146.00
<b>2008</b>	-	-	-	-	\$ 2,137.00

### EPS

	Q1	Q2	Q3	Q4	Total
<b>2011</b>	\$ 0.65	\$ 0.31			
<b>2010</b>	\$ 0.50	\$ 0.33	\$ 0.06	\$ 0.82	\$ 1.71
<b>2009</b>					\$ 1.00
<b>2008</b>					\$ 2.20



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## FUNDAMENTAL RATIO ANALYSIS

Suncor has shown strong revenue growth indicating the possibility of an increase in future share prices. With relatively high return on equity and return on assets, Suncor is demonstrating a strong level of profitability. With a current ratio of greater than one, Suncor is not having any issues handling their current financial obligations. Their price to book ratio is greater than one signalling good future growth prospects. The price to earnings ratio is rather low compared to other companies in the industry. Exxon Mobil and BP are slightly higher around 12.5 while Canadian National Resources and MEG energy are significantly higher at 27.33 and 50.36 respectively. With a low price to earnings ratio, Suncor shares can be seen as not overpriced.

<b>Revenue Growth</b>	<b>ROE</b>	<b>Current Ratio</b>	<b>Price to Book</b>
13.30%	8.29%	1.27	1.2
<b>Gross Margin</b>	<b>ROA</b>	<b>Quick Ratio</b>	
47.90%	4.63%	--	
<b>Profit Margin</b>	<b>P/E</b>	<b>Debt/Equity</b>	
10.29%	11.79	29.45	

## CASH FLOW ANALYSIS

<b>Net Cash Position</b>	<b>Dividend</b>	<b>Div. Growth Rate</b>	<b>Price/Cash Flow</b>
\$3.1B	\$0.42	--	15.228
<b>FCF Per Share</b>	<b>Dividend Yield</b>	<b>Cash from Operation</b>	
\$1.97	1.50%	\$8.16B	
<b>FCF Yield</b>	<b>Dividend Payout</b>		
6.57%	23.4%		

Suncor pays a reasonable dividend yield and has a low payout ratio. Suncor has a strong cash and cash flow position.

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**TECHNICAL ANALYSIS**



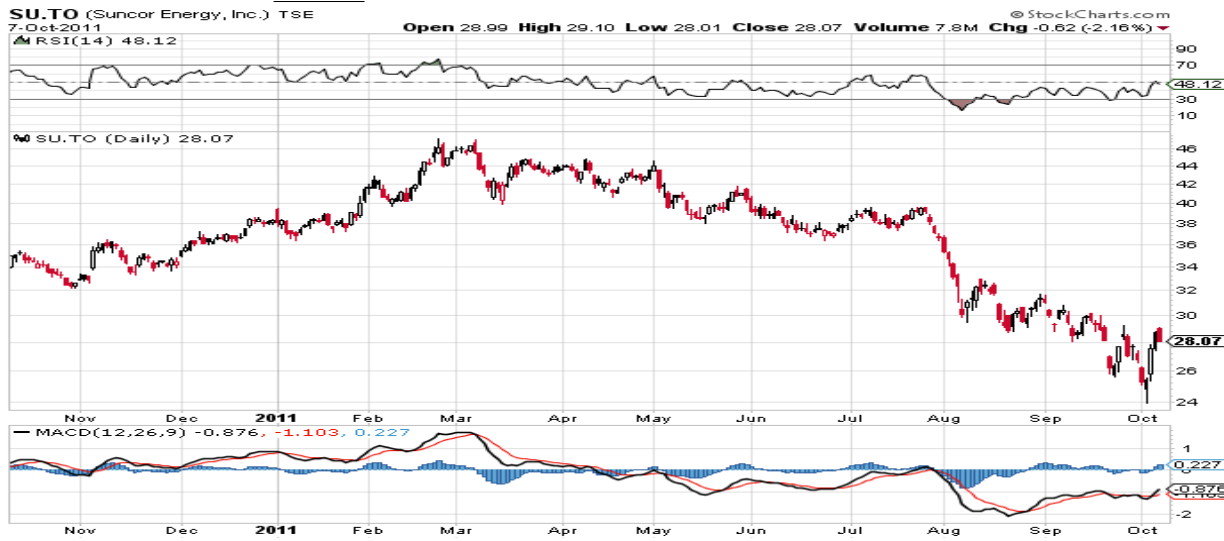
Recently, the price broke above its 15-day moving average which may be an indicator of a trend reversal. A bullish trend could be confirmed if the price closes above the approaching 50-day moving average.



In the above chart, it is apparent that the Suncor has been in a downtrend as the stock has been “walking the lower band.” Although the stock breaking through the middle band may signify the start of an uptrend, the price sharply falling through the lower band recently implies that there still is a lot of selling pressure.

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The Relative Strength Index (RSI) has been around 30 for the last two months indicating that the stock has been oversold. The RSI value of 48 at the most recent close indicates that the stock is currently neither overbought nor oversold. The Moving Average Convergence-Divergence (MACD) at the previous close of -0.876 confirms that the stock has been oversold. The recent occurrence of the MACD line crossing over the signal line is a bullish signal, which suggests that a trend reversal may be occurring.



The On Balance Volume (OBV) is a measure of buying and selling pressure. As the OBV has been directly following the stock price movement, it simply confirms the downtrend that has been occurring and the recent bounce in the last week.

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## SELECTION METHODOLOGY

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We began with a focus on type of energy, with a preference for oil over natural gas. We also had a preference for upstream production. Although Suncor is an integrated energy company, it is heavily weighted toward oil, and its growth potential is linked to upstream oil sands production.

### Selection Methodology:

We wanted to invest in a large, stable oil producers offering reasonable dividend yield and trading near a 52 week low (for potential capital gain during the holding period for the club).

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