



Independent Stock Idea

February 2, 2010

rating: contrarian buy
s&p 500: 1103

Suncor Energy (SU)

Reduce Net Present Value to US\$48 a Share from US\$52

<i>Symbol</i>	SU	<i>Ebitda Next Twelve Months ending 12/31/10 (US\$mm)</i>	8,700
<i>Rating</i>	Contrarian Buy	<i>North American Natural Gas/Ebitda (%)</i>	7
<i>Price (US\$/sh)</i>	30.99	<i>Natural Gas and Oil Production/Ebitda (%)</i>	86
<i>Pricing Date</i>	2/2/10	<i>Adjusted Reserves/Production NTM</i>	14.3
<i>Shares (mm)</i>	1562	<i>EV/Ebitda</i>	7.6
<i>Market Capitalization (US\$mm)</i>	48,400	<i>PV/Ebitda</i>	10.6
<i>Debt (US\$mm)</i>	18,100	<i>Undeveloped Reserves (%)</i>	30
<i>Enterprise Value (EV) (US\$mm)</i>	66,500	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	32.30
<i>Present Value (PV) (US\$mm)</i>	93,100	<i>Present Value Proven Reserves(US\$/boe)</i>	24.40
<i>Net Present Value (US\$/share)</i>	48	<i>Present Value Proven Reserves(US\$/mcf)</i>	4.07
<i>Debt/Present Value</i>	0.19	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.34
<i>McDep Ratio - EV/PV</i>	0.71	<i>Price/Earnings Next Twelve Months</i>	23
<i>Dividend Yield (%/year)</i>	1.2	<i>Indicated Annual Dividend (US\$/sh)</i>	0.38
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

Contrarian Buy-recommended **Suncor Energy (SU)** offers unlevered appreciation potential of 40% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of US\$48 a share, reduced from US\$52. Fourth quarter results released today detail unlevered cash flow (Ebitda) below our expectations of three months ago, after adjusting for unplanned downtime in December (see table Next Twelve Months Operating and Financial Estimates). The shortfall in cash flow stemmed mostly from higher costs, which will largely persist in 2010 as a result of more maintenance turnarounds among other factors. Management recognizes the need for greater efficiency. Nonetheless, we reduce NPV to a lower level that can be supported by cash flow and reserve life in an industry context (see table Functional Cash Flow and Present Value). Meanwhile, the trend for oil, 84% of the value in Suncor, continues up with futures prices for the next six years at \$86 a barrel compared to the 40-week average of \$82 (see chart Six-Year Commodity Price Meter). Seeing Suncor stock drop below its 200-day average of \$33 a share, we reclassify our previous Buy rating to Contrarian Buy.

Kurt H. Wulff, CFA



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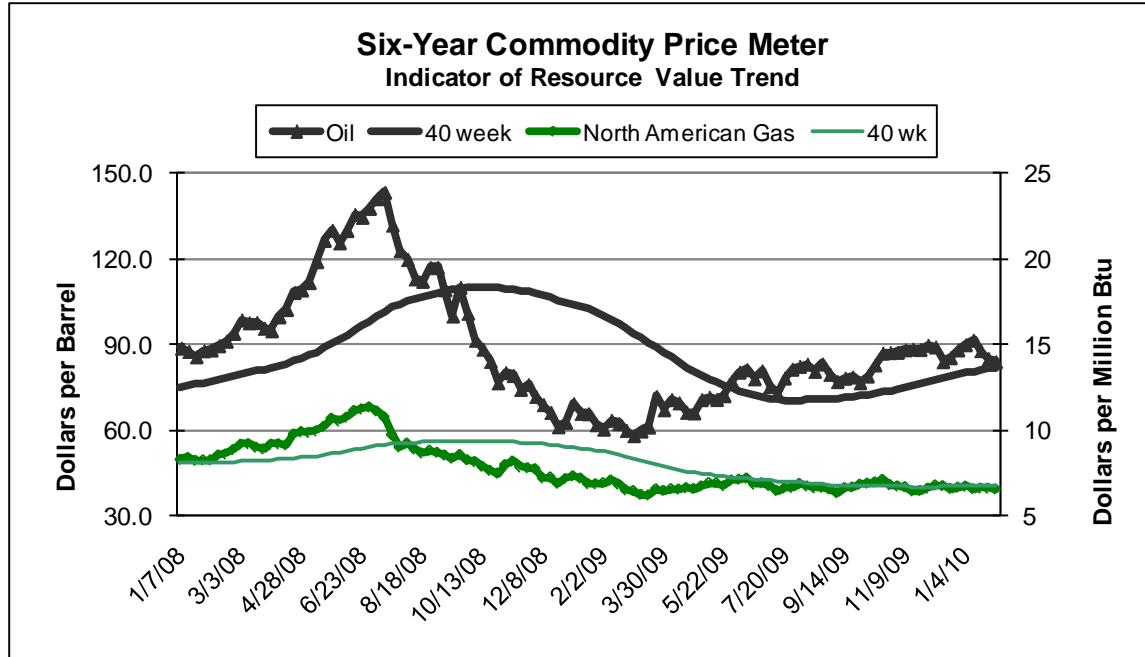
Suncor									
Next Twelve Months Operating and Financial Estimates									
(Canadian Dollars)									
									<i>Next Twelve Months</i>
	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>12/31/10</i>
	<i>12/31/08</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>2009</i>	<i>3/31/10</i>	<i>6/30/10</i>	<i>9/30/10</i>	<i>12/31/10</i>	<i>12/31/10</i>
Volume									
Natural Gas (mmcf)	195	517	674	397	674	674	674	674	674
Days	92	92	92	365	90	91	92	92	365
Oil (mbd)	265	443	526	377	526	526	526	526	526
Total gas & oil (bcf)	164	292	352	971	345	349	352	352	1,398
Total gas & oil (mbd)	298	529	638	443	638	638	638	638	638
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.95	3.39	4.16	3.99	5.53	5.45	5.64	6.12	5.69
Currency (US\$/C\$)	0.83	0.91	0.94	0.87	0.94	0.94	0.94	0.94	0.94
Henry Hub (C\$/mmbtu)	8.40	3.72	4.41	4.57	5.86	5.78	5.98	6.49	6.03
Company	6.90	2.79	4.30	3.87	5.71	5.63	5.83	5.32	5.62
Oil (\$/bbl)									
WTI Cushing	58.45	68.22	76.09	61.70	75.89	75.77	77.37	78.64	76.92
WTI Cushing (C\$/bbl)	70.62	74.83	80.69	69.58	80.48	80.35	82.05	83.40	81.57
Company	60.94	63.92	73.32	65.33	73.14	75.44	77.04	78.30	76.00
Total gas & oil (\$/mcf)	9.80	9.37	10.83	9.84	11.05	11.35	11.61	11.69	11.43
NY Harbor 3-2-1 (\$/bbl)	5.10	9.45	5.22	8.34	6.92	9.63	8.41	4.65	7.40
Revenue (\$mm)									
Natural Gas	124	133	267	562	346	345	361	330	1,383
Oil	1,486	2,606	3,548	8,991	3,462	3,611	3,728	3,789	14,591
Other	5,586	5,705	3,135	15,712	3,135	3,135	3,135	6,000	15,406
Total	7,196	8,443	6,950	25,265	6,944	7,092	7,225	10,119	31,379
Expense (\$mm)									
Exploration and Production	1,193	1,276	1,462	4,071	1,904	1,978	2,045	2,060	7,987
Other	(124)	125	277	737	433	417	235	190	1,275
Total Ebitda	1,069	1,401	1,740	4,808	2,337	2,395	2,280	2,250	9,262
Exploration	17	129	100	268	100	100	100	150	450
Deprec., Deplet., & Amort.	282	666	1,124	2,432	1,124	1,124	1,124	1,360	4,732
Other				562					-
Ebit	770	606	516	1,546	1,113	1,171	1,056	740	4,080
Interest	103	160	160	483	160	160	160	180	660
Ebt	667	446	356	1,063	953	1,011	896	560	3,420
Income Tax	234	156	28	276	334	354	314	196	1,197
Net Income (\$mm)									
Exploration and Production	575	698	392						
Other	(181)	51	158						
Unallocated	40	(459)	(222)						
Total	434	290	328	787	620	657	582	364	2,223
Shares (millions)									
Per share (\$)	0.46	0.23	0.21	0.62	0.40	0.42	0.37	0.23	1.42
Ebitda Margin (E&P)	74%	47%	38%	43%	50%	50%	50%	50%	50%
Tax Rate	35%	35%	8%	26%	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	650	8.1	7.7	5,000	5%
Oil	6,880	15.4	11.4	78,100	84%
Downstream	1,200		8.3	10,000	11%
	8,730	14.3	10.7	93,100	100%
Debt (US\$mm)					18,100
Net Present Value (US\$mm)					75,000
Shares (mm)					1,562
Net Present Value - Standard Estimate (US\$/sh)					48
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					44





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