



Independent Stock Idea

July 24, 2008

rating: buy
s&p 500: 1268 intraday

Suncor Energy (SU) Operations Challenge

<i>Symbol</i>	SU	<i>Ebitda Next Twelve Months ending 6/30/09 (US\$mm)</i>	9,100
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/sh)</i>	51.92	<i>Natural Gas and Oil Production/Ebitda (%)</i>	94
<i>Pricing Date</i>	7/24/08	<i>Adjusted Reserves/Production NTM</i>	22.6
<i>Shares (mm)</i>	953	<i>EV/Ebitda</i>	6.2
<i>Market Capitalization (US\$mm)</i>	49,500	<i>PV/Ebitda</i>	8.6
<i>Debt (US\$mm)</i>	6,900	<i>Undeveloped Reserves (%)</i>	33
<i>Enterprise Value (EV) (US\$mm)</i>	56,300	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	72.90
<i>Present Value (PV) (US\$mm)</i>	78,300	<i>Present Value Proven Reserves(US\$/boe)</i>	27.48
<i>Net Present Value (US\$/share)</i>	75	<i>Present Value Proven Reserves(US\$/mcf)</i>	4.58
<i>Debt/Present Value</i>	0.09	<i>Earnings Next Twelve Months (US\$/sh)</i>	5.23
<i>McDep Ratio - EV/PV</i>	0.72	<i>Price/Earnings Next Twelve Months</i>	10
<i>Dividend Yield (%/year)</i>	0.4	<i>Indicated Annual Dividend (US\$/sh)</i>	0.20
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\$100 a barrel and natural gas, \$14 a million btu.			
For historical analysis of SU since 2004 see www.mcdep.com/2su.htm			

Summary and Recommendation

Buy-recommended **Suncor Energy (SU)** offers unlevered appreciation potential of 39% to estimated net present value (NPV) of \$75 a share. On May 13 we raised NPV from \$61 a share on the basis of a long-term oil price assumption of \$100 a barrel, up from \$80. However, patience may be necessary as SU stock price has entered a downtrend defined by current quote below the 200-day average of \$54. Released today, second quarter results were dampened by a decline in oil volume as a result of operating difficulties (see table Next Twelve Months Operating and Financial Estimates). The problems became evident with monthly disclosures and should now be largely cleared up. New volumes from a capacity expansion to 350,000 barrels daily should begin contributing in the current quarter. While we allocate present value by function, we consider the whole of Suncor to be an oil sands mining venture comparable in present value to fellow oil sands miner Syncrude (see table Functional Cash Flow and Present Value). The difficulty both projects have had achieving expanded capacity of 350,000 barrels daily illustrates that new oil supply may not be as cheap as sanguine projections make it seem. Meanwhile long-term crude oil price continues in an uptrend where the latest quote of \$126 a barrel for delivery over the next six years is above the 40-week average of \$103 (see chart Six-Year Commodity Price Meter).

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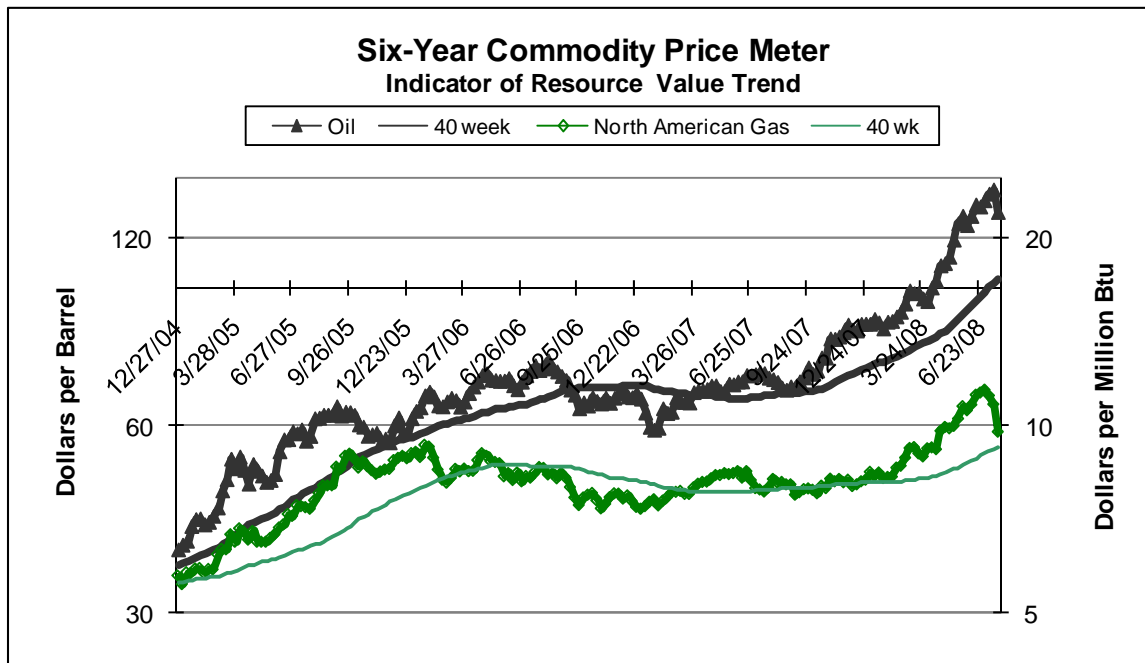
Suncor										
Next Twelve Months Operations										
(Canadian Dollars)										
										<i>Next Twelve Months</i>
	<i>Q2</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>		
	<i>6/30/07</i>	<i>3/31/08</i>	<i>6/30/08</i>	<i>9/30/08</i>	<i>12/31/08</i>	<i>2008E</i>	<i>3/31/09</i>	<i>6/30/09</i>		<i>6/30/09</i>
Volume										
Natural Gas (mmcf)	191	209	205	205	205	207	205	205		205
Days	91	91	91	92	92	366	90	91		365
Oil (mbd)	211	248	185	250	300	246	300	300		287
Total gas & oil (bcf)	133	155	120	157	184	616	180	182		704
Total gas & oil (mbd)	243	283	219	284	334	280	334	334		322
Price										
Natural gas (\$/mcf)										
Henry Hub (\$/mmbtu)	7.56	8.02	10.93	11.40	11.05	10.35	11.54	10.78		11.19
Currency (US\$/C\$)	0.91	1.00	0.99	0.99	0.99	0.99	0.99	0.99		0.99
Henry Hub (C\$/mmbtu)	8.29	8.05	11.04	11.55	11.20	10.46	11.69	10.92		11.34
Company	6.83	7.30	9.62	10.06	9.75	9.18	10.18	9.51		9.88
Oil (\$/bbl)										
WTI Cushing	64.91	97.94	123.97	132.68	132.66	121.82	133.52	132.25		132.78
WTI Cushing (C\$/bbl)	71.25	98.40	125.23	134.43	134.41	123.11	135.28	134.00		134.53
Company	70.73	95.79	121.72	130.67	130.65	120.24	131.49	130.25		130.77
Total gas & oil (\$/mcf)	11.14	14.90	18.62	20.37	20.55	18.71	20.72	20.46		20.53
NY Harbor 3-2-1 (\$/bbl)	24.96	7.57	14.94	11.34	9.63	10.87	11.32	15.94		12.06
Revenue (\$mm)										
Natural Gas	119	139	179	190	184	692	188	177		739
Oil	1,360	2,165	2,048	3,005	3,606	10,825	3,550	3,556		13,717
Other	2,879	3,684	5,731	5,731	5,731	20,878	5,731	5,731		22,926
Total	4,358	5,988	7,959	8,927	9,521	32,395	9,470	9,465		37,382
Expense	3,268	4,481	6,315	6,882	7,233	24,911	7,022	7,017		28,155
Ebitda (\$mm)										
Exploration and Production	727	1,303	1,437	1,917	2,274	6,930	2,243	2,240		8,674
Other	363	205	207	127	14	554	205	207		554
Total Ebitda	1,090	1,507	1,644	2,045	2,288	7,484	2,448	2,447		9,227
Exploration	37	12	31	31	31	105	20	20		102
Deprec., Deplet., & Amort.	216	248	268	268	268	1,052	268	268		1,072
Ebit	837	1,247	1,345	1,746	1,989	6,327	2,160	2,159		8,053
Interest	45	61	69	69	69	270	69	69		278
Ebt	792	1,186	1,276	1,676	1,920	6,057	2,090	2,090		7,776
Income Tax	277	415	446	587	672	2,120	732	731		2,721
Net Income (\$mm)										
Exploration and Production	415	714	803	1,101	1,337	3,956	1,342	1,341		5,122
Other	206	95	91	73	8	268	123	124		328
Unallocated	(107)	(38)	(65)	(85)	(98)	(286)	(106)	(106)		(396)
Total	514	771	829	1,089	1,248	3,937	1,359	1,358		5,054
Shares (millions)	944	946	953	953	953	952	953	953		953
Per share (\$)	0.55	0.82	0.87	1.14	1.31	4.14	1.43	1.43		5.30
Ebitda Margin (E&P)	49%	57%	65%	60%	60%	60%	60%	60%		60%
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)	
North American Natural Gas	360	7.5	5.6	2,000	3%
Oil	8,200	24.1	8.9	72,700	93%
Downstream	550		6.5	3,600	5%
	9,110	22.6	8.6	78,300	100%
Debt (US\$mm)					6,900
Net Present Value (US\$mm)					71,400
Shares (mm)					953
Net Present Value - Standard Estimate (US\$/sh)					75





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