



## RESEARCH REPORT

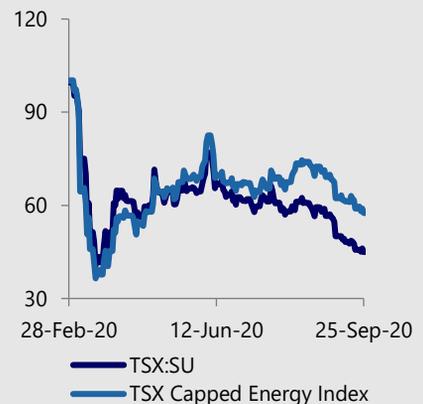
September 28, 2020

Stock Rating **Buy**  
Price Target **\$23.30**



Ticker	SU
Market Cap. (MM)	\$25,363
P / NAV	0.6x
EV / DACF (2021E)	5.9x

### 52 Week Performance



### Energy & Utilities

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## Suncor Energy Inc. Synthetic Crude, Real Returns

Whilst Suncor has historically been the largest and best-known name amongst Canadian large-cap integrated producers, one of QUIC's longest-standing holdings is Canadian Natural Resources Limited – one of Suncor's primary rivals. Thus, the QUIC E&U team formerly possessed the train of thought that holding two very similar, albeit rival, companies would be detrimental in relation to taking a highly-concentrated position in one high-conviction name. This name historically has been CNRL. However, while assessing the market for new opportunities in light of the Covid downturn in March, one name piqued the team's interest in particular – Suncor Energy Inc.

As outlined within this report, the QUIC E&U team would like to open a position in Suncor. Such is due to a variety of factors:

- Strong business fundamentals and financial profile
- Attractive assets and production mix, with best-in-class netbacks
- Unfair and unjustified market treatment, thus opening the door to invest in a premium company at an unprecedented discount

It is due to the aforementioned reasons that the E&U team believes that Suncor will fit in well with the group's overarching strategy of generating torque to oil price upside, while also maximizing downside protection through investing in well-capitalized and operationally sound companies.

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## Table of Contents

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Company Overview	3
Industry Overview	6
Thesis I: Strong Business Fundamentals	9
Thesis II: Attractive Assets and Production Mix	11
Thesis III: Unfair and Irrational Market Treatment	13
Company ESG Credentials	15
Valuation – Comparable Companies Analysis	16
References	18

## Company Overview

### General Overview:

Suncor Energy Incorporated is one of Canada’s only integrated producers, with both substantial production and refining capacity. It primarily operates in the Athabasca Oil Sands, although the firm additionally operates offshore wells in Eastern Canada and abroad. Suncor owns more than 1,500 Petro-Canada gas stations across Canada, making the company one of the largest downstream players. It has significant refining capacity from facilities in Edmonton, Sarnia, Montreal, and Commerce City. Suncor continues to invest in green energy projects alongside its traditional petroleum business. The company was founded in 1917 but only began to see tremendous growth through the late 1960s as it commercialized production from the Canadian Oil Sands. The firm remains the second largest producer in Canada today.

### Business Model:

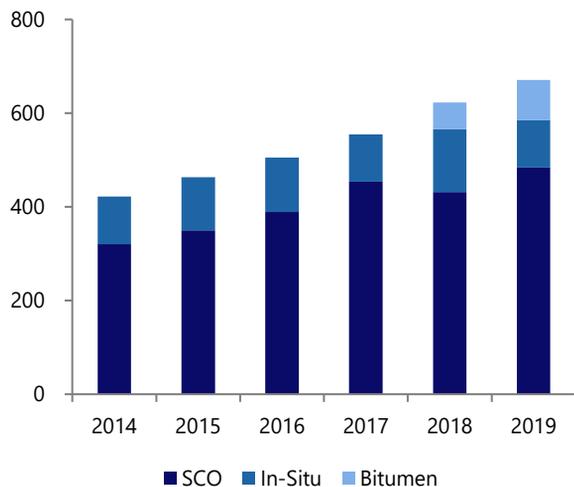
On the production side, Suncor is reliant upon synthetic crude oil (SCO) from the Athabasca Oil

Sands. SCO is a blend of naphtha, distillate, and bitumen that is chemically identical to conventional crude. With the strong economics discussed later, Suncor’s core asset base offers significant advantages in comparison to other producers and has allowed it to grow to the current scale. The company supplements its traditional Oil Sands operations with in-situ production from Firebag and MacKay River. The exploration and production segment is focused on global assets, including in Europe and offshore.

Unlike more traditional and smaller E&P players, Suncor’s growth is not exclusively tied to its production. While it does have significant production capacity (~777 mboe/d), a large portion of its earnings is tied to the success of its downstream segment. In fact, its refining and marketing segments accounted for 51% of total operating income through 2019. With refinery utilization at ~95% in 2019 (and only dropping to ~85% in Q2 2020), Suncor has diversified streams of revenue that are less contingent upon the daily gyrations of oil prices.

#### EXHIBIT I

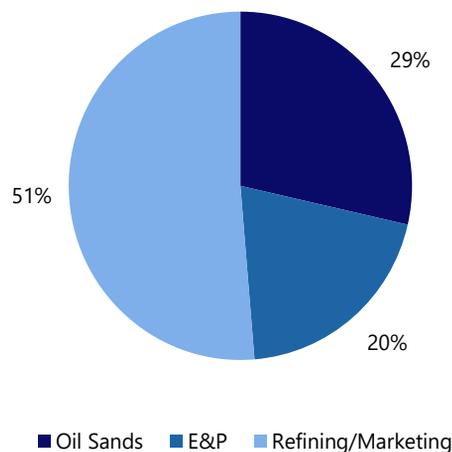
Oil Sands Production by Type in mboe/d



Source(s): Company Filings

#### EXHIBIT II

% of Operating Income by Segment in FY2019



Source(s): Company Filings

## Company Overview

### Assets:

**Oil Sands Base:** Including both the Millennium and North Steepbank projects, the Oil Sands Base composes the majority of Suncor's asset base. There are two upgrading facilities as well as utilities, storage, and energy facilities. With ~20% of the petroleum from the Athabasca Oil Sands at less than 200 feet deep, most extraction happens through open-pit mining. These assets accounted for most of Suncor's production in 2019 at 289.9 mbbbl/d. Bitumen is the main product from these assets, requiring upgrading for use and transportation. CapEx for the Oil Sands Base was \$1.83B in 2019. There was a minor COVID-19 outbreak at this facility in late August.

**Fort Hills:** Located near Fort McMurray, the Fort Hills asset is an open-pit mine with an estimated 3.4 billion barrels of petroleum in reserves. The project was officially opened in early 2018, having received approval in 2002. Suncor currently owns ~50% of the project, with Teck and Total holding the remainder. Suncor's portion of the production came to 85,300 bbl/d in 2019, with production continuing to ramp up.

**Syncrude:** Suncor owns 58.74% of this project, located in the Athabasca Oil Sands. Syncrude holds leases across 63,000 net acres, producing a total of ~250,000 bbl/d on average. Bitumen is extracted and upgraded to SCO at this location. As the operator, Suncor spent

\$539M on CapEx at Syncrude. There was a COVID-19 outbreak in early September at this facility.

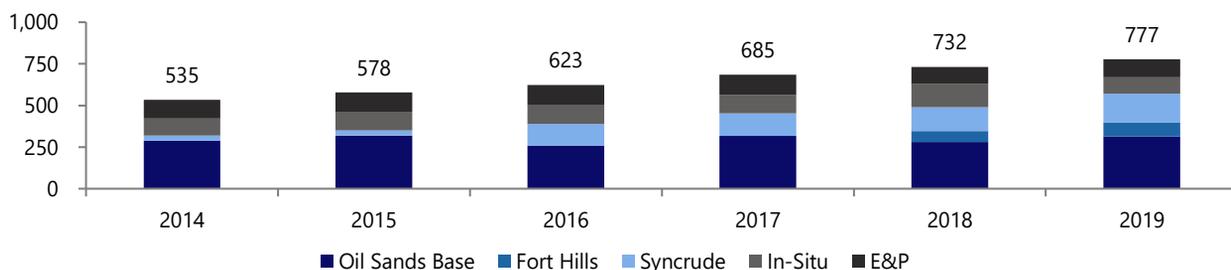
**In-Situ:** 80% of the petroleum located in the Athabasca Oil Sands is below the level at which it can be mined. These reserves are tapped using in-situ production, which is similar to more traditional wells. Mackay River and Firebag are two locations at which Suncor uses in-situ techniques, like SAGD. Continued technological improvement has allowed for in-situ production to account for ~100 mbbbl/d of Suncor's production in 2019.

**Exploration and Production:** The E&P sector consists of Suncor's international and offshore assets. The company holds assets in Norway, the UK, Libya, and Syria (formerly). Suncor additionally controls significant production off the East Coast of Canada, including Hibernia and Terra Nova. Most of these facilities are not fully owned and operated by Suncor, although it does operate the Terra Nova asset. Total E&P segment production came to 106,800 bbl/d in 2019.

**Refining Assets:** Suncor's refining assets can process a combined 482 mbbbl/d across Canada. It has facilities in Edmonton, Sarnia, Montreal, and Commerce City. These facilities are able to turn raw crude into the high-quality petroleum products that consumers desire. Total CapEx spend on this segment came to \$811M in 2019, with a utilization of 95%.

### EXHIBIT III

Suncor Production by Asset in mboe/d



Source(s): Company Filings

## Company Overview

### Management

There have been significant changes to Suncor's management team over the last two years. Most of the current executive group joined in early 2020, a point largely attributed to the appointment of Mark Little as CEO. Little replaced Steve Williams, who retired in 2019 after 7+ years as CEO. Since taking the reins, Little has replaced most of Williams' former deputies with his own picks.

*Mark Little:* Little joined Suncor in 2008 as an SVP, rapidly rising through the ranks to become CEO in May 2019. Prior to working at Suncor, he was involved with numerous international projects at Imperial/Exxon. Little holds a BSc from the University of Calgary and an Applied Petroleum Engineering Certificate from SAIT.

*Alister Cowen:* Cowen is the current CFO of Suncor, a position he has held since the start of this year. Before that, Cowen acted as an EVP since joining in 2014. Prior to joining Suncor, Cowen was the CFO of Husky. He holds a BA in Accounting and Finance from Heriot-Watt University in Edinburgh, Scotland.

*Mike MacSween:* As the EVP, Upstream, MacSween is

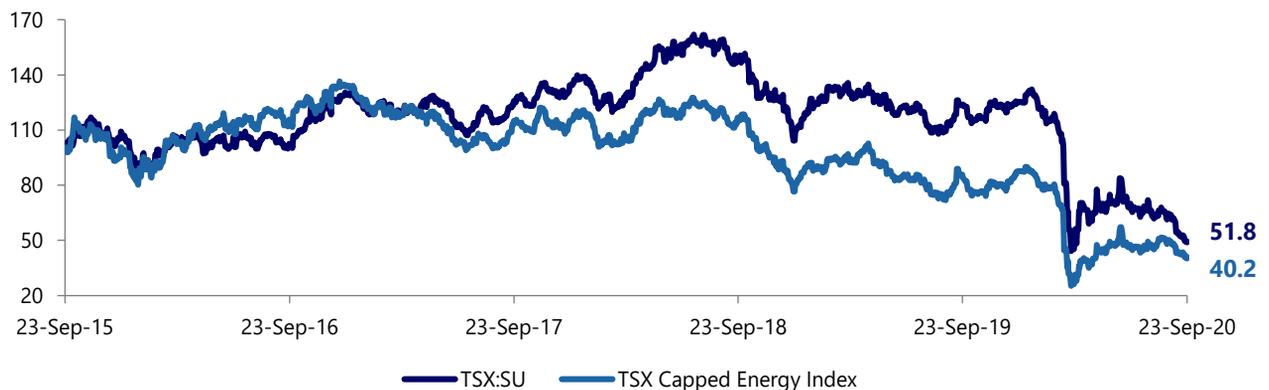
responsible for the operation of Suncor's production facilities, a role he has held since 2017. MacSween has been at Suncor for most of his career, first joining in 1996. He holds a BSc from the University of New Brunswick and an MBA from Queen's.

*Kris Smith:* Smith has been the EVP, Downstream since early 2020, overseeing the refining network as well as the Petro-Canada brand. He first joined Suncor in 2000 from a Calgary law firm and has held various positions since then. He holds a BA with Honors from the University of Alberta, as well as a Bachelor of Laws from Dalhousie University.

Suncor's executive team is well-compensated, although their pay does appear in line with other Calgary-based producers. CEO pay is 87% at-risk, with EVP pay coming in at 81%. Pay is largely tied to PSUs and options (the majority of which are out of the money). Its top five executives were paid the fourth most in Calgary, slightly more than CNRL but less than Enbridge. At-risk pay is tied to the company's FFO, safety, sustainability, growth, and personal performance. As the second largest producer in Canada, pay appears to be within reason, and is well-tied to performance.

### EXHIBIT IV

Relative Performance



Source(s): Company Filings

## Industry Overview

### Canadian Oil Market

Canada is the one of the largest oil producers in the world. Accounting for 6% of production, 8% of exports, and 10% of proven reserves, Canada plays a massive role in modern civilization’s energy mix. Further, the conscientiousness of ESG in Canadian production theoretically presents opportunities to gain even greater global market share. However, there is a roadblock: the country’s supply far outweighs its demand, resulting in 64% of Canadian oil being exported. Due to an almost entirely landlocked production base, 96% of these exports go to the U.S., a dominant but ultimately import-oriented player. Canada also lacks the refining capacity to complete the energy supply chain domestically, furthering the need for cross-border relations with the States. Given recently-crashed demand (further elaboration on next page), countries are collectively focusing on meeting domestic demand with domestic supply. Export-reliant

nations – such as Canada – will be forced to constrain production in the short-term, especially given the government’s gradual divestment from oil and minimal stimulus towards this industry. Regardless, an eventual rebound is expected given the economy’s desire to exploit every last drop of oil prior to reserve depletion.

### Critical Geographies

Throughout Canada’s rich history of oil production, a few geographies have exhibited themselves as especially opportunistic for drilling. The Alberta Deep Basin hosts some of the largest conventional oil reserves and most prolific gas wells in Canada – 96% of production is sourced from oil sands in this area. Additionally, large deposits of crude have also been discovered in the Maritimes, and some larger producers have also been able to extract value from drills offshore the East Coast of Canada.

### EXHIBIT V

Historical Crude Oil Prices



Source(s): OilPrice.com

## Industry Overview

### Decline Rates

Historically, a standard oil or gas discovery would urgently lead to the site’s appraisal for development, following which production would commence and rise rapidly. In Canada, this stage occurred in the decades leading up to the 1960s. Following such, marginal E&P in North America has generally stayed at a plateau, with current reserves being milked for production for the majority of their life. As subsurface conditions deteriorate over time, extraction levels as prior cannot be supported – thus begins the production decline phase. As such has begun to be observed in some areas of Canada, innovative technology has been leveraged to yield still-maximum oil output. Simultaneously, advancements in shale gas extraction (such as hydraulic fracking) over the last decade have presented chances to pivot away from the decline of traditional O&G drilling and towards more opportunistic runways for growth.

### Business as Unusual

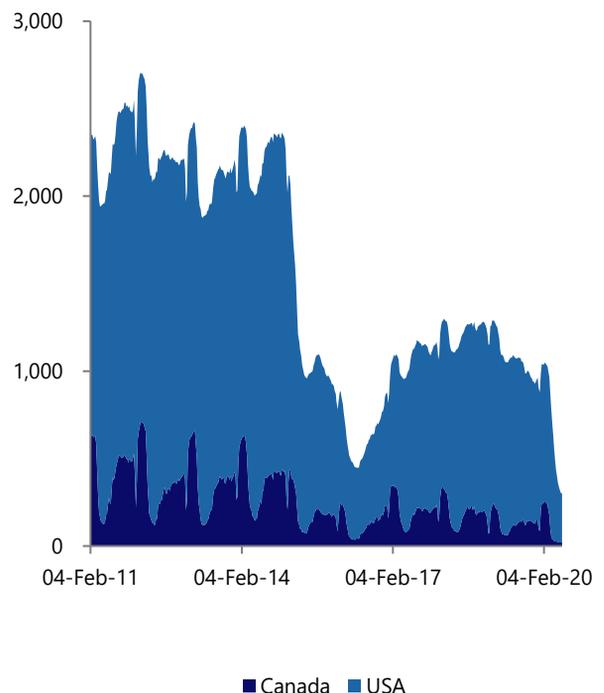
With the exception of oilfield services providers, upstream oil companies were hit the hardest by the COVID-19 ripple effect in March of 2020. The rapid spread of the virus caused an unprecedented halt in macroeconomic activity, production, and air travel – oil demand plummeted in alignment. Falling prices initiated a power struggle between Saudi Arabia and Russia in which both surged production in attempt to capture market share. The supply/demand imbalance was the most dramatic in history, as exemplified by oil futures contracts expiring in May falling sub-zero. In alignment with production curtailments, oil rigs all over the world fell offline at incredible rates, eventually reaching a historically low total count.

Oil has since recovered relatively well given re-emerging economic activity and the inauguration of

driving season; however, North American consumption throughout Q2 and Q3 was significantly less than that recorded in 2019. The merits of this rally are debatable – some are skeptical due to concerns for a second major wave of COVID-19, while others point out the impending supply shortage resulting from internationally-mandated curtailments and soon-to-be restored demand. In the long term, there will firstly be a shortage of supply due to forgone maintenance on and upgrading of shut-in wells during the crash, and diminishing fossil fuel inventories. Demand will stay relatively flat over this time horizon, with perhaps a slight decline being observed as the global movement towards renewable energy progresses.

### EXHIBIT VI

North American Oil Rig Count



Source(s): Baker Hughes

## Industry Overview

### An Integrated Landscape

The Canadian energy space is disproportionately dominated by a few key players with massive production figures and largely integrated supply chains. A roster of Suncor Energy, Canadian Natural Resources, Imperial Oil, Cenovus Energy, and Husky Energy account for over half of Canadian oil production. Currently, Suncor leads its peer group in production, revenue, and market capitalization.

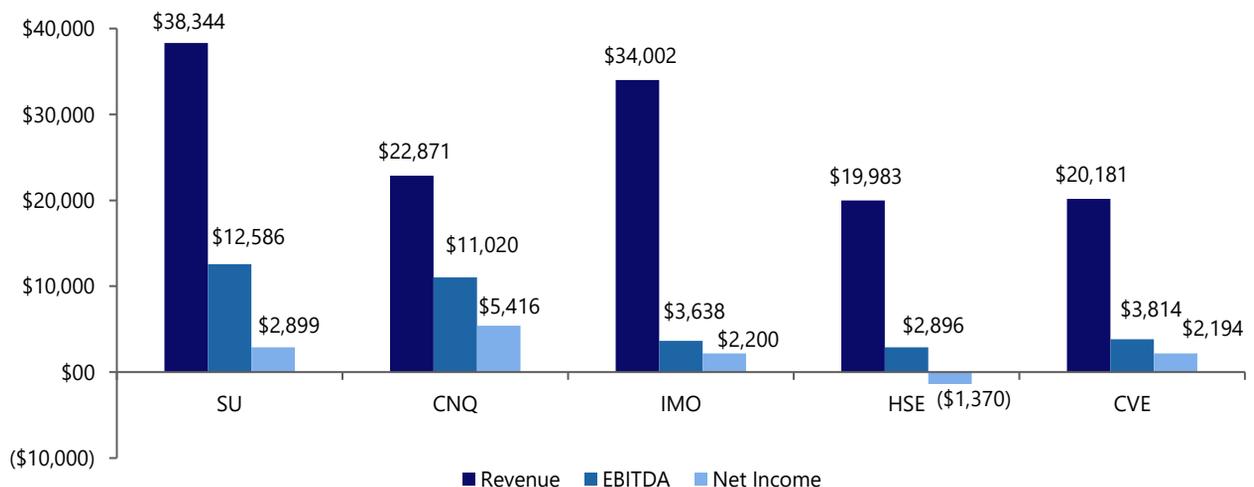
The impressive volume of Canadian O&G production is underwhelmed by the country's refining capacity, which is very limited. While these senior producers maintain a level of control over the downstream space, smaller producers rely heavily on exports to the U.S.. Such operations have become increasingly difficult due to midstream infrastructure saturation and the contingency of growth projects upon election results.

### Historical Netbacks

The netbacks of Canadian oil producers have always been a critical factor in forging success; however, these figures have become especially important recently given market pressure. A company's netback is essentially a combined summary of all costs associated with bringing a barrel of oil to market and the revenue earned from that single unit – it is an expression of gross profit per barrel. Historical average netbacks have fluctuated with secular trends but have primarily remained within the \$10-\$40 range, with a few exceptions. Sales price is the most volatile variable, bouncing between \$45 and \$75 until the 2020 crash at which point such plummeted to unprecedented levels. Operating expenses are significant on the cost side, and the reduction of such over time has become key in improving profitability. Last, transportation fees and royalties are factored into the netback formula.

### Exhibit VII

Key Financials of Major Players (LTM 2019)



Source(s): Company Filings

## Thesis I: Strong Business Fundamentals

### Out of the Spin Cycle

One of the most impressive aspects of Suncor's business model is the unique cleanliness of the company's balance sheet. Many modern-day commodity businesses are quite insolvent; this is primarily due to energy companies' common approach to operations in a market where success relies on efficiency and being the first to capitalize on opportunities. Cash that flows into the business (usually from large debt issuances) is usually immediately reinvested in a scramble-like nature into growth opportunities with even slight potential, pitched towards consolidation-oriented tuck-ins of distressed juniors and cheap assets, or allocated towards heavy capital expenditure requirements. This traditional model has become problematic given 2020's oil crash, unstable prices and cash flows, and creditors' increasing awareness of the risk associated with lending to O&G businesses.

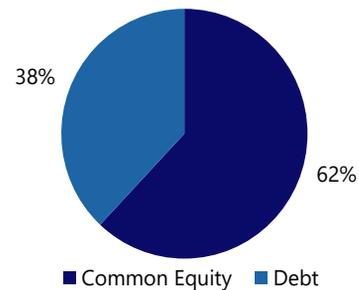
Suncor possesses a massive advantage on this front. Given a significantly equity-weighted capital structure and impressive liquidity, the company has maintained a >1.0x current ratio throughout the pandemic, which cannot be said for most of the company's peer group. This position has been achieved through a defensive business model, permitted in an otherwise aggressive industry by significant scale advantages and cost-cutting abilities via an integrated supply chain. These factors have contributed to Suncor's consistent generation of strong earnings, which has afforded chances to improve asset diversification and quality, ultimately widening the company's economic moat. The advantage is evident: it is nearly impossible for most producers to access adequate tools to break through the barriers necessary to even compete with Suncor.

Suncor is also positioned advantageously with a low debt load (\$4.5B due over next 5 years) in relation to cash flow (LTM CFFO of \$6B) and no significant single repayments due at any point in the future (the largest being \$1.4B due in FY21). Suncor's greatest rival,

Canadian Natural Resources, is in a much tougher spot despite equal LTM CFFO: \$15B due over the next five years with two \$4B walls to hurtle. Finally, Suncor should face no difficulties when re-financing becomes necessary given the company's track record of timely repayment and subsequently strong credit rating of BBB+.

### EXHIBIT VIII

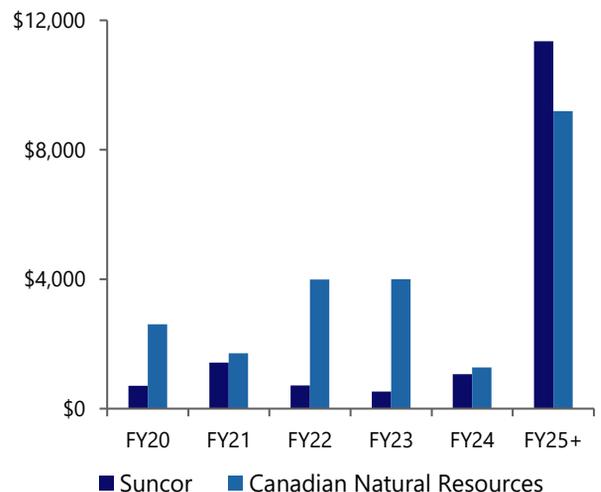
Capital Structure



Source(s): Company Filings

### EXHIBIT IX

SU vs. CNQ Debt Maturities (MM)



Source(s): S&P Capital IQ

## Thesis I: Strong Business Fundamentals

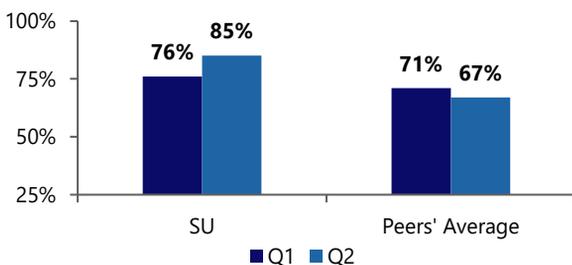
### Elite Managerial Acumen

Despite the fact that the market demonstrated skepticism in Suncor's management at its turnover, the company's new team has since demonstrated wisdom, agility, and prudence in navigating the troubled waters of the 2020 energy markets. Firstly, management has cited deleveraging of an already-impressive balance sheet as the top priority moving forward. Whilst some players, such as Canadian Natural Resources, have been noticeably gunning for consolidation and tuck-ins of stressed juniors given excess cash flow, Suncor has again been able to enjoy their leading asset scale and focus on long-term, conservative plays.

Further, while many upstream players have adopted a 'protect at all costs' approach to their dividend, Suncor's team has uniquely demonstrated an understanding of priorities. Having slashed yield by 55%, it may seem that the importance of passive income to upstream investors has been overlooked; however, not only did Suncor recognize an unsustainable payout ratio and properly emphasize downside protection, but the company's dividend yield still remains competitive at 4.9%. Furthermore, management has submitted a plan to gradually reinstate the dividend on pace with debt reduction over time and continue this method of returning value to shareholders in the long term. Analysts estimate a

### EXHIBIT X

Downstream Utilization Rates (2020)



Source(s): TD Securities

70% equity, 30% debt-comprised capital structure as the threshold for commencing this process; given Suncor's current breakdown between the two instruments, reaching this goal should not take long.

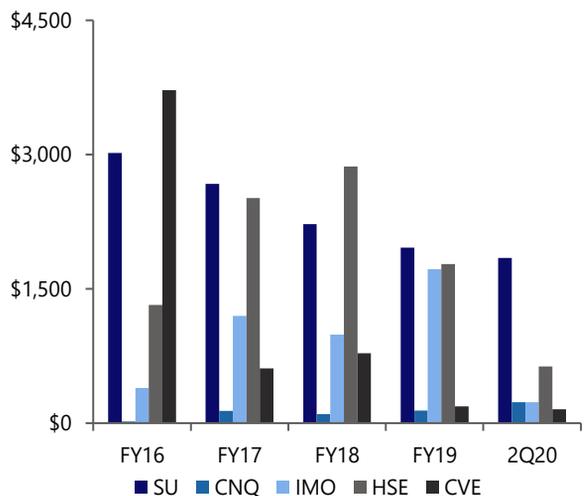
### Redefining Refining

Suncor's downstream segment has experienced more favourable conditions than the rest of the Canadian refining market. Even with COVID-19 interrupting the energy supply chain, Suncor's refineries entered Q2 competitively with 76% utilization and exited the period even more so at >85%. This is in stark contrast to peers' average figures of 71% and 67%, respectively.

From a growth perspective, Suncor's cash flow potential is less torqued to oil upside than peers. However, this reality directly relates to the reasoning behind this thesis; Suncor's established scale and cost advantages have allowed the company to remain risk-averse (for an upstream holding), which is the name of the game given the current energy environment.

### EXHIBIT XI

Liquidity Comparison to Peers (MM)



Source(s): Company Filings

## Thesis II: Attractive Assets and Production Mix

### Location, Location, Location

With 166.3 billion barrels of oil reserves, the Canadian Oil Sands are the third largest reserves on the planet and account for 97% of Canada’s total petroleum reserves. \$243B has been spent by private corporations since the 1960s to develop the assets. With 20% of the reserves accessible through open-pit mining, producers have invested significantly in these easily recoverable barrels. Only recently have producers begun to more aggressively pursue SAGD and other in-situ methods of production, largely thanks to its superior economics.

Oil Sands producers have been plagued by relatively high costs of production for years, leading to most focusing on significant cost reduction over the past five years. Since 2014, IHS estimates that operating costs have dropped by 25% to 33% through reengineering and capital cost reductions. The good news, for producers like Suncor, is that its investments have already been made. With upfront costs making up a significant portion of total expenses for producers, existing assets offer a significant advantage. In Suncor’s case, its assets are geographically localized, limiting the need for individual capital expenditures (upgrading is done at a centralized location). Furthermore, new projects have had difficulty getting

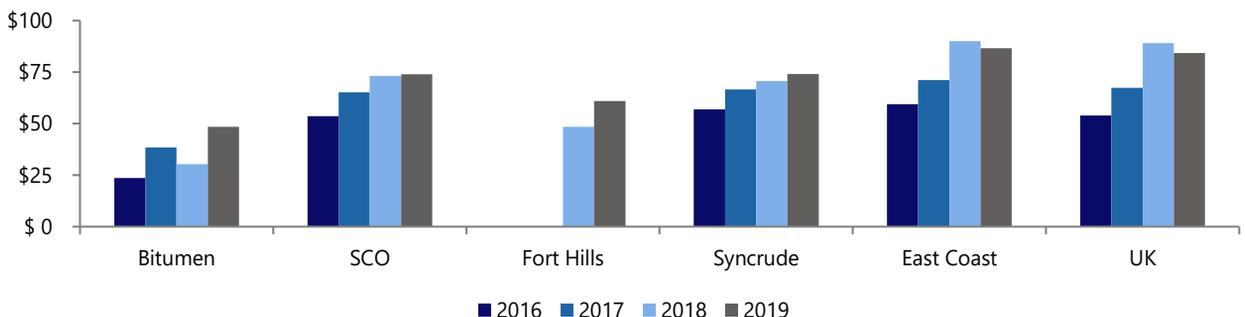
approval over recent years (see the Teck Frontier mine). With an RLI (reserve life index) of ~31 years and a decline rate of <1%, Suncor is well positioned to produce from its Oil Sands assets for many years to come. Suncor believes that it can reach >1,000 mbb/d with existing assets by 2030, impressive growth without additional asset acquisitions (largely driven by in-situ replication, which involves drilling in developed locations).

### Superior Pricing

Thanks to the high quality and upgradability of Suncor’s assets, its production receives premium pricing in comparison to other players. Higher sulfur content can lower the quality of the crude produced from an asset and require more processing to remove. Oil Sands crude is generally low in sulfur, but very heavy, meaning that it commands a low price in raw form. However, thanks to Suncor’s upgrading facilities (Upgrader 1 and Upgrader 2) located near Fort McMurray, the company is able to receive higher prices for lower quality crude. As shown below, the ability to upgrade its crude creates a substantially more economic asset for Suncor. Furthermore, Suncor’s North Sea offshore assets are priced with Brent, which generally trades at a 5-10% premium to West Texas Intermediate.

### EXHIBIT V

Average Realized Price by Type in C\$/bbl



Source(s): Company Filings

## Thesis II: Attractive Assets and Production Mix

### Netbacks

Compared to upstream peers in the Canadian O&G space, Suncor has a relatively attractive netback profile. The company has consistently been able to expand its netbacks since 2016 through significant cost cutting and improved pricing. While not directly correlated to profit, netback gives a relatively good measure of the quality of a company's production. With Suncor's netbacks at over \$35, the firm has a very attractive base.

Since netback is not an IFRS or GAAP measurement, it can be tough to compare on an apples to apples basis. However, general trends do exist. For example, Suncor has average transportation costs and average operating costs, but low royalties expense when compared to peers. This results in the overall higher netback that we see.

### Downstream Capacity

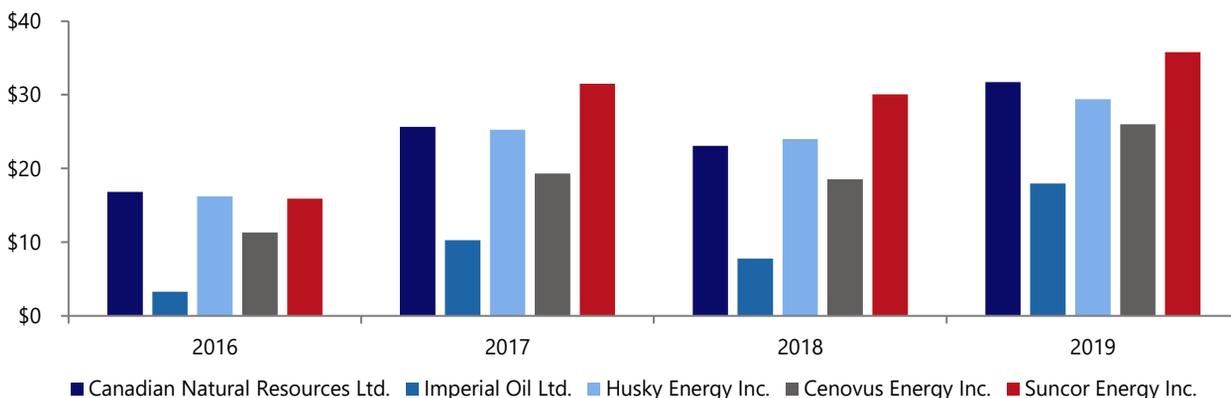
With ~460 mbb/d of nameplate refining capacity, Suncor is one of the largest downstream players in the country. Its refining business makes up more than 50% of operating income, and has consistently grown over

the last three years. Suncor's integrated model means that both its refining and upstream assets benefit through lower costs and optimized logistics. Suncor has 222 mbb/d of refining throughput capacity in Eastern Canada and 240 mbb/d of capacity in Western Canada. Additionally included in the downstream segment is marketing, which covers the Petro-Canada gas station brand.

Refining profitably is largely driven through crack spreads, which refers to the difference between the cost to the refiner for a barrel of crude and the price received for the refined product. If the crack spread expands (for Suncor, the most important spread would be the 2:1:1 standard), the company will be able to turn a higher profit on its refining segment. Seasonality, strong economic growth, higher regulations, and currency strength can all contribute to more profitable crack spreads. This segment is less tied to the gyrations of oil prices, meaning that Suncor is able to withstand some oil price challenges. It is additionally worth noting that its upgrading facilities actually have a negative profit correlation with the price of natural gas; that is, Suncor makes more profit at lower natural gas prices since it is an input for producing SCO.

### EXHIBIT VI

Netbacks Compared to Senior Peers



Source(s): Company Filings

## Thesis III: Unfair and Irrational Market Treatment

In March 2020, during the COVID-19 global downturn, QUIC's Energy & Utilities team recognized the importance of capitalizing on the overall loss of value in the Energy industry. Therefore the team elected to analyze the five Canadian seniors (Suncor, Cenovus, Canadian Natural Resources, Husky and Imperial Oil) in order to determine if there was conviction in a name that would allow us to take advantage of the massive sell-off that has been witnessed in the energy markets. After diligent analysis, the team increased its exposure to CNRL, choosing the name over Suncor and other Seniors due to various reasons including:

- a) **Dividend Profile:** at the time CNRL yielded 10.22%, as opposed to Suncor's 8.57%.
- b) **Cost Base:** CNRL had amongst the lowest operating costs per barrel in the industry, they additionally had achieved consistently lower operating expenses (\$/BOE) than Suncor. However, Suncor did realize a similar gap with respect to average sales price (\$/BOE),

and therefore a higher netback.

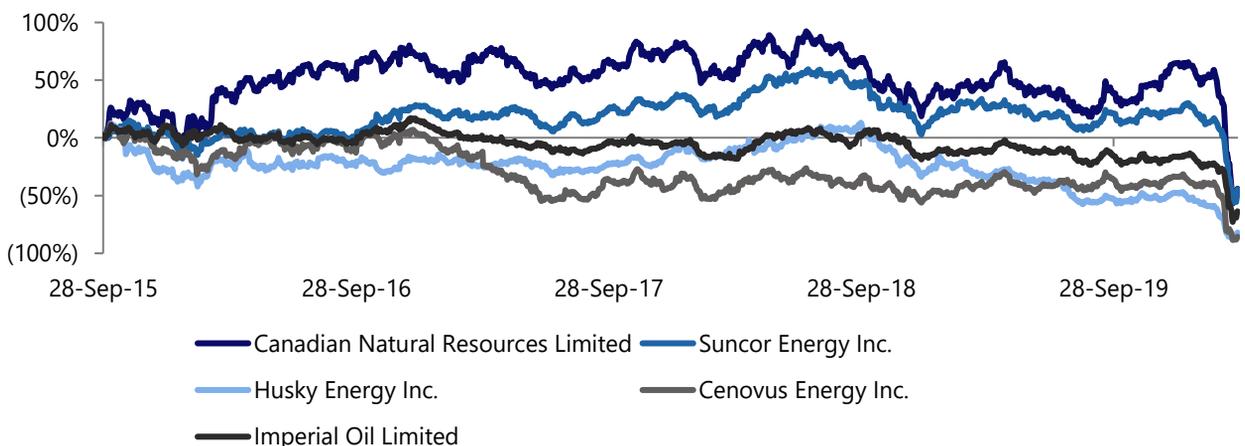
- c) **Size:** CNRL was largest Canadian fossil fuels producer on a barrels-per-day basis. However Suncor only slightly trailed this number and additionally realized a significant portion of revenue from their refining and marketing business.

- d) **Management Team:** Although intangible, this is the most important factor for us. CNRL's management team is commonly regarded as best-in-the-business. Murray Edwards (CEO) founded CNRL in 1988 and possesses a high degree of insider ownership. He has displayed a keen ability to successfully steer CNQ through past downturns, which offered a slight edge to Suncor's newly appointed and formed management team.

- e) **Valuation:** At the time, at just 8.08x EV/CF and 3.40x EV/EBITDA, CNRL was trading in-line with Suncor, with both companies at an unjustified discount.

### Exhibit XIV

Canadian Senior Producers Relative Performance: 5-Year at COVID Market Downturn



Source(s): Capital IQ

## Thesis III: Unfair and Irrational Market Treatment

Since moving into CNRL, many of these points such as dividend stability, management, and size have played out, and CNRL has seen substantial returns since the bottom of the COVID-19 downturn. However, Suncor, who also stood out at the top of the pack in March comparative to other senior producers such as Imperial Oil, Cenovus, and Husky, has underperformed its entire peer group. Despite a low valuation, excellent leverage profile, substantial size, competent and diligent management, and industry leading netbacks, Suncor returned (12.9%) post-March 25<sup>th</sup>, compared to a peer group average of 32.4%. To determine the underlying reasons for this discrepancy, the team analyzed several key areas which could have acted as contributing factors: *Suncor's refining exposure, dividend cut, and the fire at Suncor's Base Plant mining operations.* These factors have proven to be non-issues and highlight irrational market treatment and discounting of Suncor's comparatively larger and further-integrated business model to peers.

### Refining Exposure

Although not entirely specific to Suncor, given its

extensive integration, Suncor has direct exposure to the weak North American refining outlook. However, despite the challenging outlook, Suncor's reserves have been consistently more competitive than the industry average, yet the US pure play refiners have outperformed Suncor since Q2 2020 earnings releases.

### Dividend Cut

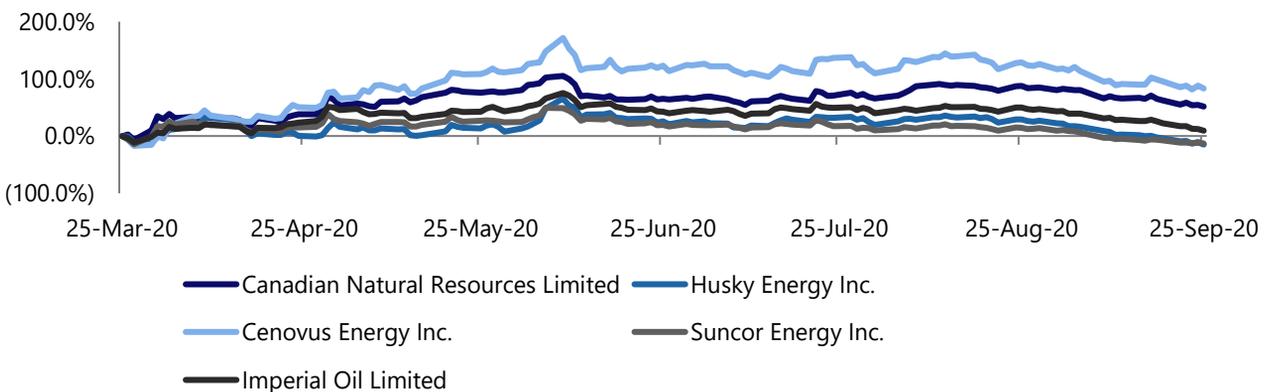
Although Suncor did cut its dividend by 55%, it still yields 4.9%, and the cut displays necessary capital prudence. Additionally, it occurred prior to Suncor's major comparative peer underperformance.

### Base Plant Fire

This incident followed a fire that broke out at Syncrude on March 6, 2020, which Suncor carries a 59% stake in. Although this does create potential headwinds, it was announced following significant previous underperformance. Additionally mining production recovered to 53% utilization by August 29<sup>th</sup>, and full restoration is expected by November, lowering consensus production estimates by only 4%.

### Exhibit XV

Canadian Senior Producers Relative Performance: Post-CNRL Purchase



Source(s): Capital IQ, TD Securities

## Company ESG Credentials

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As-of-late, investors have been placing an increased emphasis upon how corporations handle ESG issues, and what their specific policies are; such is especially relevant within the energy industry. Thus, the QUIC E&U team thought that it would be pertinent to assess Suncor's track record, so as to both mitigate the risk of investing in a company that could potentially face regulatory issues down-the-line, as well as to ensure that the business has displayed consideration for all stakeholders at-large. As outlined by the points below, the E&U team believes that Suncor has placed an adequate degree of emphasis upon ESG issues, and does not see the topic as a key risk.

### **GHG Emissions**

Suncor maintains a "full transparency" policy, and actively discloses scope 1, 2 and 3 GHG emissions. Such are broken down by source, geography and asset. Further, management performance evaluations/compensation are tied to environmental considerations, and the company has stated that its primary goal is to reduce emissions intensity by 30%.

### **Air Quality**

Suncor monitors air quality within its operational vicinity, and has introduced various initiatives in order to help reduce air emissions. Such initiatives include using low-NOx boilers, vapour recovery units (to mitigate VOC and SO<sub>2</sub> emissions), sulphur recovery units/scrubbers (to reduce SO<sub>2</sub> emissions), and leak detection programs to quickly tackle new sources of emissions. VOC emissions declined 24% YoY in 2019.

### **Water Management**

Per the WWF Water Risk Filter, Suncor does not conduct operations in any water-stressed areas, and discloses all water withdrawn and returned (by source).

### **Biodiversity**

Suncor participates in numerous environmental reclamation programs; in 2019, the company

witnessed a 13% YoY decrease in regulatory non-compliance findings, and a 60% YoY decrease in regulatory fines paid. Further, no significant spills were reported.

### **Security, Human Rights and Rights of Indigenous Peoples**

The company utilizes a built-in human rights impact assessment in terms of both internal and external stakeholders, and possesses a strong degree of commitment to building partnerships including with respect to Indigenous communities. Indigenous supplier spend has increased in five of the six years spanning from 2014 to 2019, and increased by 19% YoY over the course of 2019.

### **Workforce Health and Safety**

Suncor possesses an operational excellence management system, which applies a consistent benchmark in order to ensure safety for all workplace personnel. The loss of primary containment events declined by 16% YoY in 2019, and just one fatality has occurred over the past two years.

### **Renewable Energy**

Whilst maintaining its status as one of Canada's largest oil producers, Suncor has also demonstrated a commitment to investing in novel technology, low carbon power generation and renewable energy. In 2019, the company completed construction of "Canada's Electric Highway," which is a coast-to-coast EV charging network spanning across over 50 Petro-Canada stations. Further, the company has invested in various renewable technology companies such as LanzaTech (CO<sub>2</sub> capture), LanzaJet (production of sustainable aviation fuel from ethanol from recycled waste products), and Enerkem (manufacturer of biofuels from household garbage). Last, the company is heavily invested in wind power. Suncor is involved in four operational facilities (with generating capacity of >100MW), and recently sanctioned phase one (200 MW) of the Forty Mile Wind Power Project.

## Exhibit XVI

### Canadian Senior Comparable Companies

Canadian Senior Comparable Companies														
Company Name	Market Cap (Millions)	Enterprise Value (Millions)	EV/EBITDA			P / NAV	Dividend Yield	Price/Cash Flow		Net Debt/ EBITDA	EV/DACF	FCF Yield	Gas Weighting	Production Growth
			LTM	2020E	2021E			2020E	2021E					
Canadian Natural Resources Limited	\$25,545.9	\$49,744.9	6.4x	9.7x	6.6x	0.7x	7.7%	13.1x	6.6x	4.4x	6.6x	11.5%	21.2%	3.1%
Imperial Oil Limited	\$12,038.9	\$17,211.9	21.9x	25.0x	8.9x	0.7x	5.2%	nmf	15.6x	4.0x	7.9x	5.4%	5.7%	2.1%
Cenovus Energy Inc.	\$6,402.4	\$16,497.4	nmf	23.7x	9.8x	0.6x	nmf	nmf	10.1x	5.1x	9.0x	6.9%	12.4%	(3.6%)
Husky Energy Inc.	\$3,085.7	\$10,527.7	14.5x	9.3x	5.0x	0.4x	1.6%	nmf	8.6x	3.3x	4.5x	nmf	28.3%	(3.3%)
Ovintiv Inc.	\$2,996.2	\$14,384.2	3.6x	6.5x	6.7x	0.5x	4.3%	nmf	9.6x	4.0x	6.7x	nmf	47.8%	(5.4%)
Mean	\$10,013.8	\$21,673.2	11.6x	14.9x	7.4x	0.6x	4.7%	13.1x	10.1x	4.2x	6.9x	7.9%	23.1%	(1.4%)
Median	\$6,402.4	\$16,497.4	10.4x	9.7x	6.7x	0.6x	4.8%	13.1x	9.6x	4.0x	6.7x	6.9%	21.2%	(3.3%)
Suncor Energy Inc.	\$25,363.3	\$45,397.3	13.5x	10.4x	5.7x	0.6x	4.9%	45.0x	9.9x	3.0x	5.9x	3.4%	nmf	12.3%

Source(s): Capital IQ

## Valuation – Comparable Company Analysis

As can be seen in the table above, Suncor trades at a discount relative to peers on a forward EV / EBITDA basis, as well as on a forward EV / DACF basis. The company is broadly in-line with peers on a P / NAV and forward Price / CF basis.

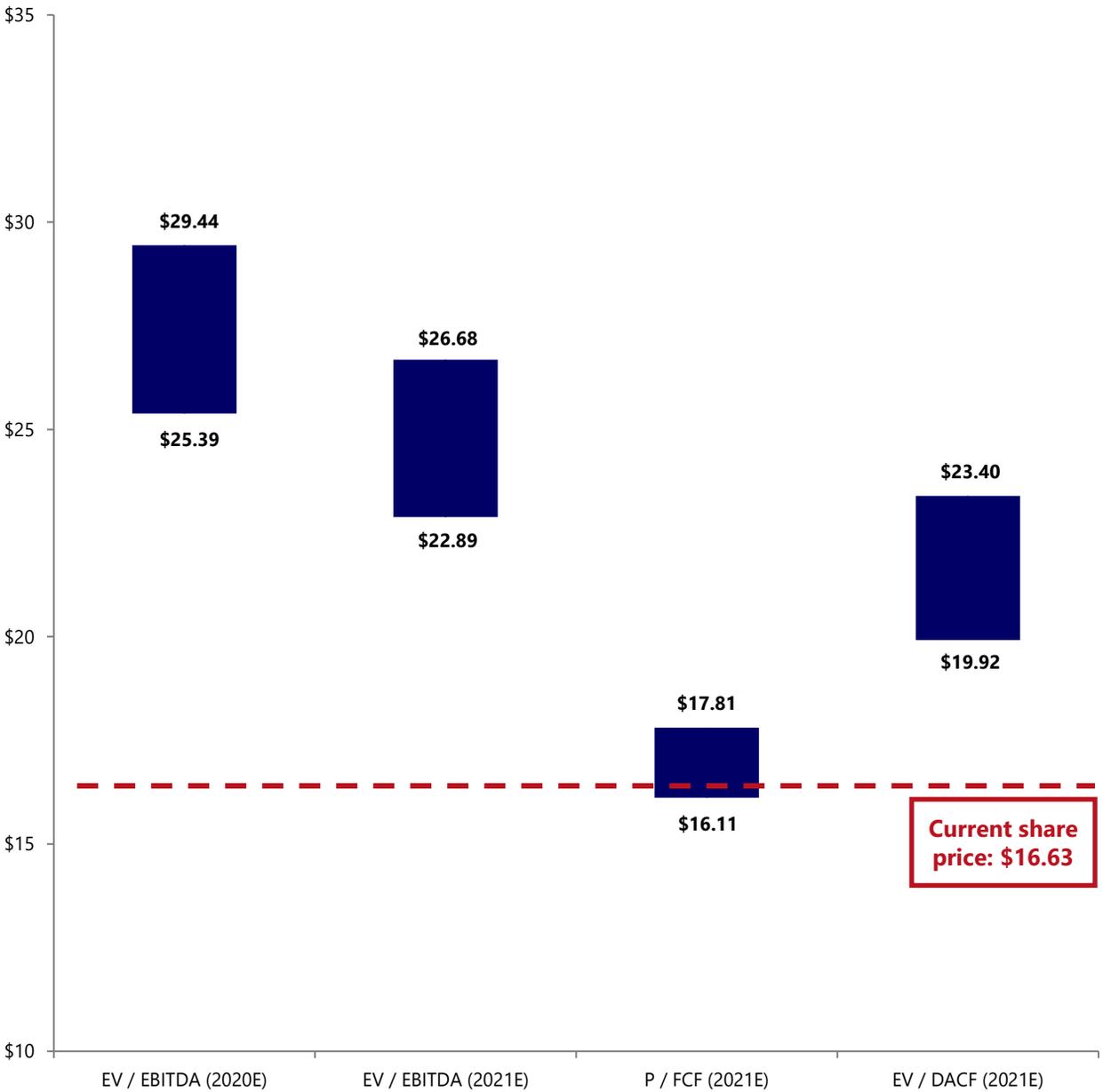
While such results do not appear remarkable, Suncor generally trades at a steep premium in relation to peers. Such is due to a variety of factors, the majority of which have been discussed earlier in this report. For example, the company's scale advantage, downstream integration, top-tier asset base and oil-weighted production. As seen above, Suncor is the least gas-weighted producer amongst senior Canadian E&P companies; such has historically been seen as extremely favourable by investors. Further, the company possesses the lowest leverage profile amongst peers (3.0x Net Debt / EBITDA), as well as a strong dividend yield (4.9%) in spite of management's recent cut.

Hence, the fact that the company is now trading at what one can consider a "fair" valuation presents a compelling opportunity for QUIC's E&U team, as the prevailing consensus appears to be that a company that is considered the "gold standard" of Canadian integrated producers should not be trading at levels that are on par (or even below) those of smaller, less operationally sound and overleveraged peers.

As can be seen on the football field chart on the following page, the company can be considered in-line with peers on a P / FCF basis. However, on a 2020E EV / EBITDA basis, 2021E EV / EBITDA basis and 2021 EV / DACF basis the company's implied return (as of close on 09/25/2020) is 53%-77%, 38%-60% and 20%-41% for each respective aforementioned multiple.

**Exhibit XVII**

Relative Valuation Summary



Source(s): Capital IQ

## References

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1. Baker Hughes
2. Capital IQ
3. Desjardins
4. Evercore
5. Google Images
6. Oilprice.com
7. TD Securities