

Suncor

New leadership, new messaging

Maintain Rating: BUY | PO: 69.00 CAD | Price: 45.01 CAD

Record Dec. propels 4Q; hits FY23 production guide

In an uncharacteristic move this morning, Suncor press released preliminary results from the quarter, where headline production elevates FY23 above the low end of guidance (745,000 actual vs 740,000 to 770,000 b/d), which had been previously viewed as being well out of reach (FY23 736,000 b/d consensus). With the support from good weather, the restart of TerraNova on Nov 27th, and the close of TotalEnergies on Nov 20th, Suncor produced a record >900,000 b/d in December, lifting 4Q production to 808,000 b/d, nearly 50,000 b/d ahead of consensus estimates (4Q 760,000 b/d). Sequentially, volumes rebounded hard from a maintenance impacted 3Q (609,500 b/d), illustrating the resiliency of the Suncor portfolio, where the beat versus our 785,000 b/d estimate came from non-upgraded bitumen (282,000 b/d vs est. 263,000 b/d), while synthetic crude was in line (476,000 b/d vs 480,000 b/d). Recall our [Dec. 6th note](#), underlining management's growing confidence in FY23 targets.

Rebuilding investor confidence

While hitting guidance typically isn't anything to write home about, we think the underlying message here is noteworthy – that new leadership sees the importance of hitting numbers and is willing to address a potential negative catalyst (missing FY23) head on, on its route to rebuilding investor confidence that had been lost by the previous regime, highlighted by missed analyst day targets. In our view, this has readthrough to viability of the more important targets new management has communicated to the street – namely, the rehabilitation of Fort Hills, and the \$5/bbl cost reduction effort (\$1.3bn) currently in progress. In early trading, shares outperformed the sector by 4%, which served as evidence of some short covering on the news.

Maintain Buy Rating

Suncor remains in the early innings of a turnaround story, highlighted by activist interest and new leadership (CEO Rich Kruger). In our view, Suncor has taken the right steps to address the relative performance gap with peers since Elliott became involved on April 28, 2022, but the market has taken a wait and see approach to reward progress as shares have continued to underperform IMO and CNQ by 10% and 20% over this time period. Even with a backward oil curve we see an attractive balance of risk with our PO still supporting 40% potential upside to fair value. In our view, SU's operating cost & productivity improvements are set to accelerate in 2024, with the first strategy update from new CEO Rich Kruger in 1Q24.

03 January 2024

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Stock Data

Price (TOR / NYS)	45.01 CAD / 33.65 USD
Price Objective	69.00 CAD / 51.00 USD
Date Established	27-Sep-2023 / 27-Sep-2023
Investment Opinion	B-1-7 / B-1-7
52-Week Range	37.09 CAD - 48.26 CAD
Market Value (mn)	58,426 CAD
Free Float	99.4%
Average Daily Value	433.85 USD
Shares Outstanding (mn)	1,298.1 / 1,298.1
BofA Ticker / Exchange	YSU / TOR
BofA Ticker / Exchange	SU / NYS
Bloomberg / Reuters	SU CN / SU.TO
ROE (2023E)	17.7%
Net Dbt to Eqty (Dec-2022A)	27.0%

IMO: Imperial Oil

CNQ: Canadian Natural Resources

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Timestamp: 03 January 2024 02:28PM EST

Price objective basis & risk

Suncor (YSU / SU)

Our price objective of \$69 CN / \$51 US assumes \$80 Brent / \$75 WTI / \$4.25 HH long-term. We apply a long-term (post tax) WACC of approximately 8.0%, which is based on the BofA strategy team's assumed risk premium and a 5-year monthly beta

The risks to our price objective are (1) the oil and gas price and margin environment, (2) significant delays to the new upstream projects critical to its production targets, and (3) inability to capture the price environment due to cost pressures (opex, capex, and taxation). Upside risks to our price objective are higher oil & gas prices and execution on operational and safety targets laid out as part of the 2025 plan. Downside risks to our PO for Suncor are (1) lower commodity prices (2) deterioration in refining margins, (3) interruption of production at units related to operational issues, fires, etc., (4) tax policy in the regions in which it operates, (5) A lack of execution on operational targets laid out in its 2025 plan

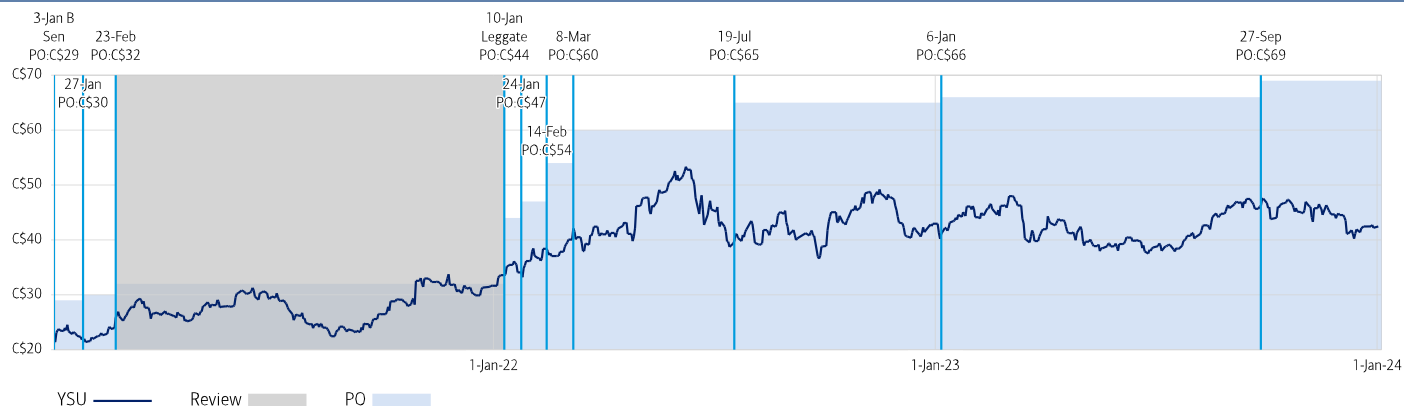
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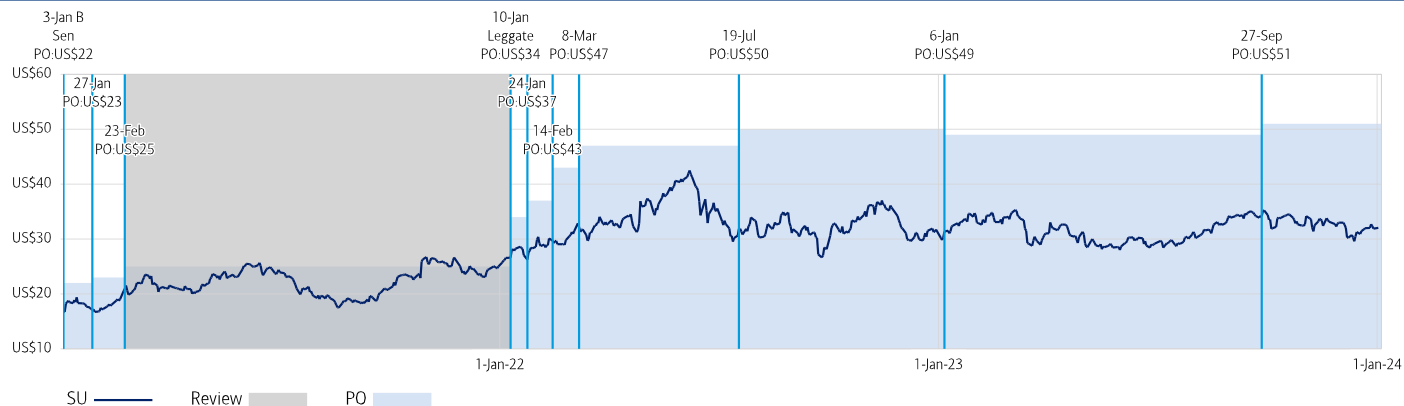
Suncor (YSU) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Suncor (SU) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Energy Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	83	61.48%	Buy	64	77.11%
Hold	28	20.74%	Hold	21	75.00%
Sell	24	17.78%	Sell	18	75.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Underperform	N/A	≥ 20%

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