

Suncor

4Q23 earnings recap: strong operating quarter; bigger tax benefit boosts c/flow

Maintain Rating: BUY | PO: 60.00 CAD | Price: 45.35 CAD

Fort Hills closing yields \$880mn tax benefit

Suncor's adj EPS of C\$1.26 beat BofA and consensus of C\$1.12 / C\$0.94 respectively. Vs our estimate the beat was lower corporate costs (C\$31mm vs C\$202mm est), which translated to strong c/flow of \$3.15bn, ahead of consensus & BofA at ~C\$3.0bn. Adj cashflow (before working capital) of C\$4.0bn benefited from a 1-time tax benefit of C\$880mm, related to the close of the Fort Hill's acquisition from TTE ahead of soft guidance of C\$500mm. Including a w/c help of \$284mm, c/flow of C\$4.3bn comfortably covered capex of C\$1.55bn and cash returns of C\$1.05bn including C\$375mm of buybacks. Note with the close of the Fort Hill's (C\$1.5bn+C\$762mm of capital leases), net debt increased C\$685mm q/q (to C\$13.68bn). On balance strong operations with record production of 808,000 boepd pre-announced on Jan 3rd underlining the turnaround at Suncor.

Solid ops, record production; 10% prospective FcF yield

Oil sands & refining earnings of C\$1.13bn & C\$418mm respectively matched our estimates led by record production including a partial quarter of TTE's Fort Hills stake (758,000 bpd c/w 646,000 bpd in 3Q23). FY24 guidance announced in Dec 2023 has capex at C\$6.3bn - C\$6.5bn with FY production of 770,000 – 810,000 boepd. Under our 2024 oil price assumption of \$75 WTI / \$58 WCS, SU generates C\$12.0bn of cashflow, C\$5.6bn of FcF for an implied FcF yield of 9.6%. Recall management intends to allocate FcF 50/50 between buybacks and debt reduction until net debt falls below C\$12bn, at which point the split moves to 75% in favor of buy backs.

Management has options: maintain Buy, PO C\$60

We continue to view Suncor in the early innings of a turnaround story, where a series of accretive acquisitions, cost reductions and improved operating performance has marked the tenure to date of new CEO Rich Kruger. However, SU has lagged peers over the past year, which we attribute to ongoing questions over long term base mine resource replacement. Frankly, with a choice that is between buy backs to drive per share growth vs a capital solution for unnecessary bitumen replacement, we believe either outcome can support relative outperformance for a stock we see as the best rate of change story amongst the Canadian Oils, and a dividend that pays to wait. Maintain Buy.

Estimates (Dec) (C\$)	2021A	2022A	2023E	2024E	2025E
EPS	2.53	6.74	5.46	4.36	4.43
GAAP EPS	2.76	6.74	5.49	4.36	4.43
EPS Change (YoY)	NM	166.4%	-19.0%	-20.1%	1.6%
Consensus EPS (Bloomberg)			4.83	4.71	4.28
DPS	1.05	1.93	2.08	2.24	2.50
EPS (SU - US\$)	2.02	5.18	4.04	3.23	3.28
DPS (SU - US\$)	0.84	1.48	1.54	1.66	1.85
Valuation (Dec)					
P/E	17.9x	6.7x	8.3x	10.4x	10.2x
GAAP P/E	16.4x	6.7x	8.3x	10.4x	10.2x
Dividend Yield	2.3%	4.3%	4.6%	4.9%	5.5%
EV / EBITDA*	7.9x	4.3x	5.8x	6.3x	6.3x
Free Cash Flow Yield*	12.2%	17.2%	10.3%	10.1%	11.7%

* For full definitions of *IQmethod*SM measures, see page 5.

22 February 2024

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Stock Data

Price (TOR / NYS)	45.35 CAD / 33.59 USD
Price Objective	60.00 CAD / 45.00 USD
Date Established	5-Jan-2024 / 5-Jan-2024
Investment Opinion	B-1-7 / B-1-7
52-Week Range	37.09 CAD - 48.26 CAD
Market Value (mn)	58,868 CAD
Free Float	99.4%
Average Daily Value	255.60 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)	17.6%
Net Dbt to Eqty (Dec-2022A)	27.0%

Glossary

TTE- Total Energies Canada (Fort Hills oil sands project)
WCS – western Canadian select
WTI – West Texas Intermediate

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iQprofileSM Suncor

iQmethodSM – Bus Performance*

(C\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	5.3%	12.4%	9.6%	7.3%	7.1%
Return on Equity	10.4%	24.4%	17.6%	13.1%	12.7%
Operating Margin	14.2%	20.1%	21.1%	23.8%	22.9%
Free Cash Flow	7,209	10,113	6,076	5,921	6,876

iQmethodSM – Quality of Earnings*

(C\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	3.1x	1.6x	1.6x	2.2x	2.4x
Asset Replacement Ratio	0.8x	0.5x	0.8x	0.9x	0.8x
Tax Rate	26.1%	21.4%	21.4%	25.1%	25.1%
Net Debt-to-Equity Ratio	36.3%	27.0%	23.8%	21.7%	21.8%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(C\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	39,101	58,568	43,351	30,912	30,839
% Change	56.1%	49.8%	-26.0%	-28.7%	-0.2%
Gross Profit	39,101	58,568	43,351	30,912	30,839
% Change	56.1%	49.8%	-26.0%	-28.7%	-0.2%
EBITDA	11,464	21,257	15,643	14,374	14,245
% Change	217.1%	85.4%	-26.4%	-8.1%	-0.9%
Net Interest & Other Income	0	0	0	0	0
Net Income (Adjusted)	3,773	9,262	7,150	5,504	5,295
% Change	NM	145.5%	-22.8%	-23.0%	-3.8%

Free Cash Flow Data (Dec)

(C\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	4,116	9,262	7,186	5,504	5,295
Depreciation & Amortization	5,850	9,420	6,434	6,970	7,123
Change in Working Capital	10,257	17,521	12,378	12,671	12,620
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(8,459)	(21,103)	(14,485)	(12,824)	(12,418)
Capital Expenditure	(4,555)	(4,987)	(5,437)	(6,400)	(5,744)
Free Cash Flow	7,209	10,113	6,076	5,921	6,876
% Change	NM	40.3%	-39.9%	-2.6%	16.1%
Share / Issue Repurchase	(2,301)	(4,673)	(2,222)	(2,301)	(3,620)
Cost of Dividends Paid	(1,550)	(2,596)	(2,729)	(2,824)	(2,989)
Change in Debt	(3,284)	(3,655)	(398)	(767)	(217)

Balance Sheet Data (Dec)

(C\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	2,205	1,980	2,217	2,245	2,295
Trade Receivables	4,534	6,068	7,315	7,315	7,315
Other Current Assets	4,238	6,488	5,564	5,564	5,564
Property, Plant & Equipment	65,546	62,654	63,399	62,652	61,092
Other Non-Current Assets	7,216	7,428	7,440	7,440	7,440
Total Assets	83,739	84,618	85,935	85,216	83,706
Short-Term Debt	1,515	2,807	2,471	2,471	2,471
Other Current Liabilities	8,884	10,062	10,247	9,897	9,897
Long-Term Debt	13,989	9,800	9,738	8,971	8,754
Other Non-Current Liabilities	22,737	22,582	21,508	21,528	21,549
Total Liabilities	47,125	45,251	43,964	42,867	42,670
Total Equity	36,614	39,367	41,971	42,349	41,035
Total Equity & Liabilities	83,739	84,618	85,935	85,216	83,706

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Oil & Gas Producers

Company Description

Suncor is a Canadian Integrated E&P company with average production of 750kboepd (light/med oil 15%, oil sands 85%, natural gas 0%). Most of the company's production is from oil sands projects (mining and In Situ), but it also has sizeable conventional oil and gas developments. The company has a 59% stake in the Syncrude project. The company also has 460kbpd of refining capacity in Canada and the U.S.

Investment Rationale

Our Buy rating for Suncor is based on an attractive combination of a competitive dividend yield alongside peer-leading capacity for growth given a 1) a better dividend coverage than its 'big oil' peers and 2) a visible reduction (via cost improvements and share repurchases) to its post-dividend break-even over time which currently sits at \$30 pre-dividend (\$35 post). Should management deliver its targets for incremental free cashflow, SU will have the lowest break-even in our coverage.

Stock Data

Average Daily Volume	7,717,802
Shares / Common - Dual Listed	1.00

Quarterly Earnings Estimates

	2022	2023
Q1	1.87A	1.52A
Q2	2.69A	1.43A
Q3	-0.45A	1.52A
Q4	2.65A	0.99E

4Q23 Earnings summary

The table below compares actual 4Q23 results to our estimate and prior periods.

Exhibit 1: YSU 4Q23E Earnings Estimates (\$ in Millions, except in per share data)

SU beat consensus and BofA of \$0.94 / \$1.12 respectively

Segment Earnings	4Q23E	4Q23E	4Q22A	YOY	3Q23A	QOQ
Oil Sands	1,126	1,141	1,719	-34%	1,245	-10%
E&P	98	88	578	-83%	169	-42%
Refining	441	432	1,529	-71%	952	-54%
Corp & Other	(31)	(202)	(1,394)	-98%	(386)	-92%
Total Adj Earnings	1,635	1,460	2,432	-33%	1,980	-17%
Special Items	(347)	(150)	192	-280%	(252)	
Net Income (Reported)	1,288	1,310	2,624	-51%	1,728	-25%
EPS (Adjusted)	1.26	1.12	1.89	-33%	1.52	-17%
EPS (Reported)	1.26	1.12	2.04	-38%	1.33	-5%
Dividend	0.52	0.52	0.52	0%	0.52	0%

Source: BofA Global Research; Company data

BofA GLOBAL RESEARCH

Price objective basis & risk

Suncor (YSU / SU)

Our price objective of \$60 CN / \$45 US assumes \$75 Brent / \$70 WTI / \$4.0 HH long-term. We apply a long-term (post tax) WACC of approximately 9.1%, 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

Analyst Certification

I, Doug Leggate, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Large Cap Oils Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	APA Corporation	APA	APA US	Doug Leggate
	Canadian Natural Resources	YCNQ	CNQ CN	Doug Leggate
	Canadian Natural Resources	CNQ	CNQ US	Doug Leggate
	Chesapeake Energy	CHK	CHK US	Doug Leggate
	Chevron Corp.	CVX	CVX US	Doug Leggate
	ConocoPhillips	COP	COP US	Doug Leggate
	Coterra Energy Inc	CTRA	CTRA US	Doug Leggate
	EQT Corporation	EQT	EQT US	John H. Abbott
	ExxonMobil Corp.	XOM	XOM US	Doug Leggate
	Granite Ridge Resources, Inc	GRNT	GRNT US	John H. Abbott
	Imperial Oil	IMO	IMO US	Doug Leggate
	Imperial Oil	YIMO	IMO CN	Doug Leggate
	Kimbell Royalty Partners	KRP	KRP US	John H. Abbott
	Occidental Petroleum Corp.	OXY	OXY US	Doug Leggate
	Ovintiv Inc	YOVV	OVV CN	Doug Leggate
	Ovintiv Inc	OVV	OVV US	Doug Leggate
	Range Resources Corp	RRC	RRC US	Doug Leggate
	Suncor	YSU	SU CN	Doug Leggate
	Suncor	SU	SU US	Doug Leggate
NEUTRAL				
	California Resources Corporation	CRC	CRC US	Kalei Akamine
	CNX Resources	CNX	CNX US	John H. Abbott
	Delek US Holdings, Inc.	DK	DK US	Doug Leggate
	Devon Energy Corp.	DVN	DVN US	Doug Leggate
	Diamondback Energy Inc.	FANG	FANG US	Doug Leggate
	EOG Resources	EOG	EOG US	Doug Leggate
	Gulfport Energy Corporation	GPOR	GPOR US	Doug Leggate
	HF Sinclair Corporation	DINO	DINO US	Doug Leggate
	Marathon Petroleum Company	MPC	MPC US	Doug Leggate
	PBF Energy	PBF	PBF US	Doug Leggate
	Permian Resources Corporation	PR	PR US	Doug Leggate
	Phillips 66	PSX	PSX US	Doug Leggate
	Valero Energy Corp.	VLO	VLO US	Doug Leggate

US - Large Cap Oils Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
UNDERPERFORM	Chord Energy Corporation	CHRD	CHRD US	John H. Abbott
	Crescent Energy Company	CRGY	CRGY US	John H. Abbott
	Marathon Oil Corp.	MRO	MRO US	Doug Leggate
	National Fuel Gas Company	NFG	NFG US	John H. Abbott
	Northern Oil and Gas	NOG	NOG US	John H. Abbott
	Vital Energy Inc	VTLE	VTLE US	John H. Abbott
RSTR	Pioneer Natural Resources	PXD	PXD US	Doug Leggate

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
 $\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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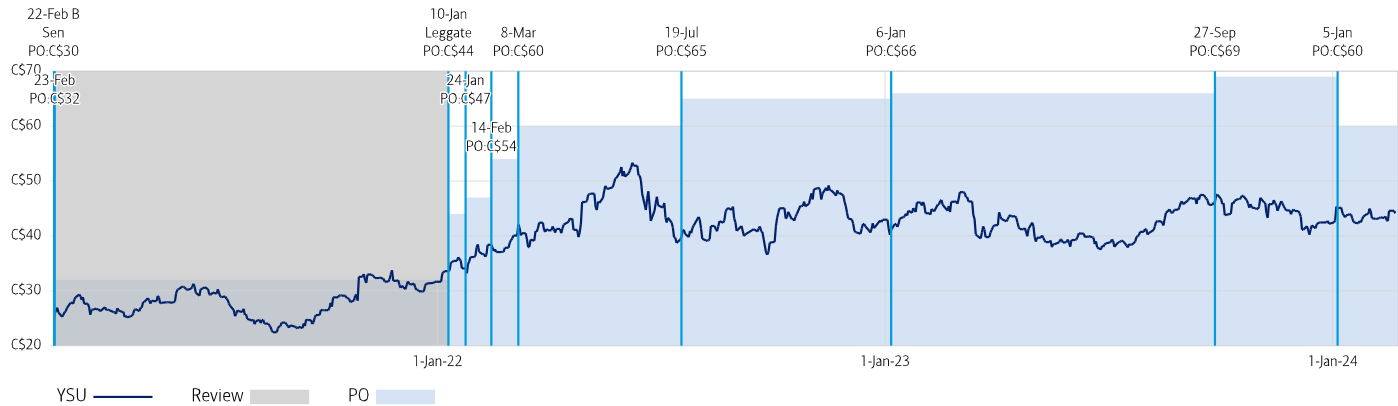
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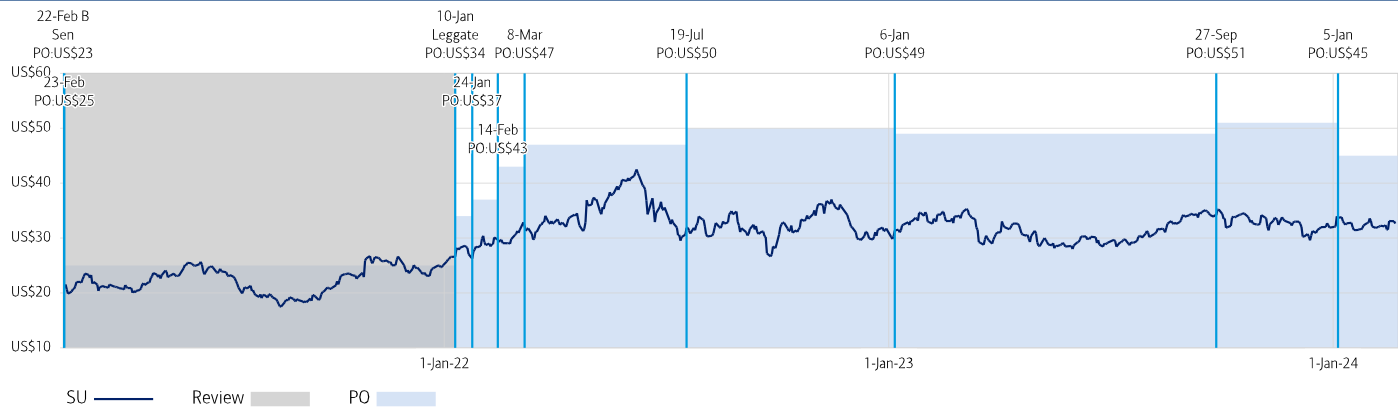
Important Disclosures

Suncor (YSU) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Suncor (SU) Price Chart



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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%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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