

Suncor (TSX:SU)



Energy Group –Kelvin Lin & Alex Wong
March 2010

Investment Thesis



Investment Thesis

Company Overview

Crude Oil

Valuation

Risks

Recommendation

- SU's shares have fallen 17% vs. peer group's 6%
- Three factors are exerting downward pressure on stock but are immaterial to long term operations
 1. Lack of clarity regarding development timing (Fort Hills)
 2. Recent fires reducing production by 30%
 3. Lengthy review of potential PCA divestitures
- Ongoing divestitures of non-core assets will result in higher valuation for Suncor once complete
- SU – PCA merger yielding higher than expected synergies

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- 5th largest energy company in North America
- 40 years of operating history in oil sands
- Merger with Petro-Canada completed August 1st 2009
 - Acquired oil sands & other assets
 - 20% of Canadian downstream market, #1 branded retailer
 - Result in significant cost synergies
- 2008 vs. 2009
 - Costs per barrel fell 15%
 - Production increased 8.8%

Petro-Canada Merger



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Enhanced downstream capabilities

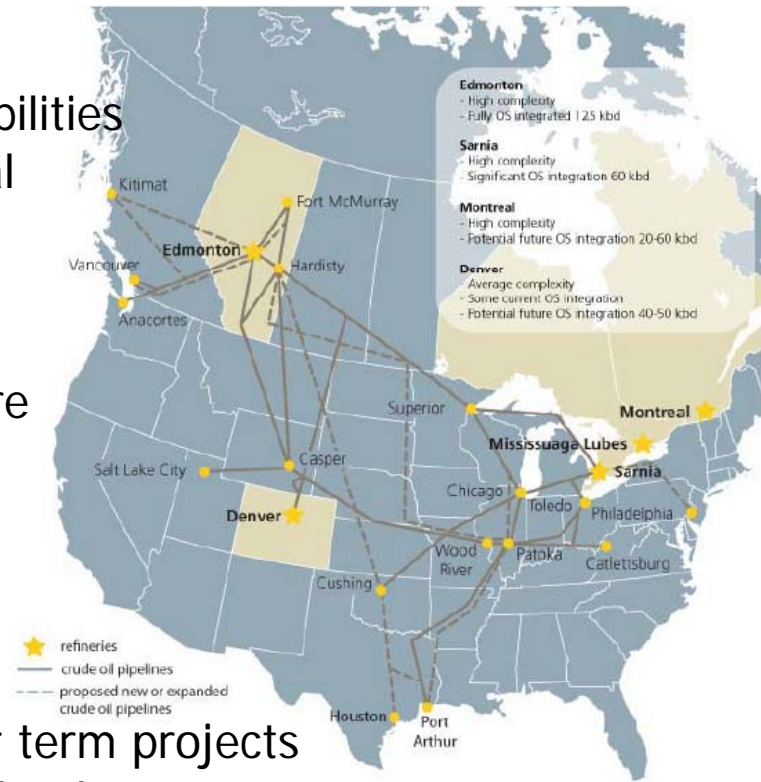
- Edmonton and Montreal Refineries
- 1323 retail outlets

Reduce operating expenditure

- Staff reduction
- Overhead reduction
- Improved logistics

Capital optimization

- Capital directed to near term projects
- Pipelines & tankage redundancy elimination



Asset Overview



Investment Thesis

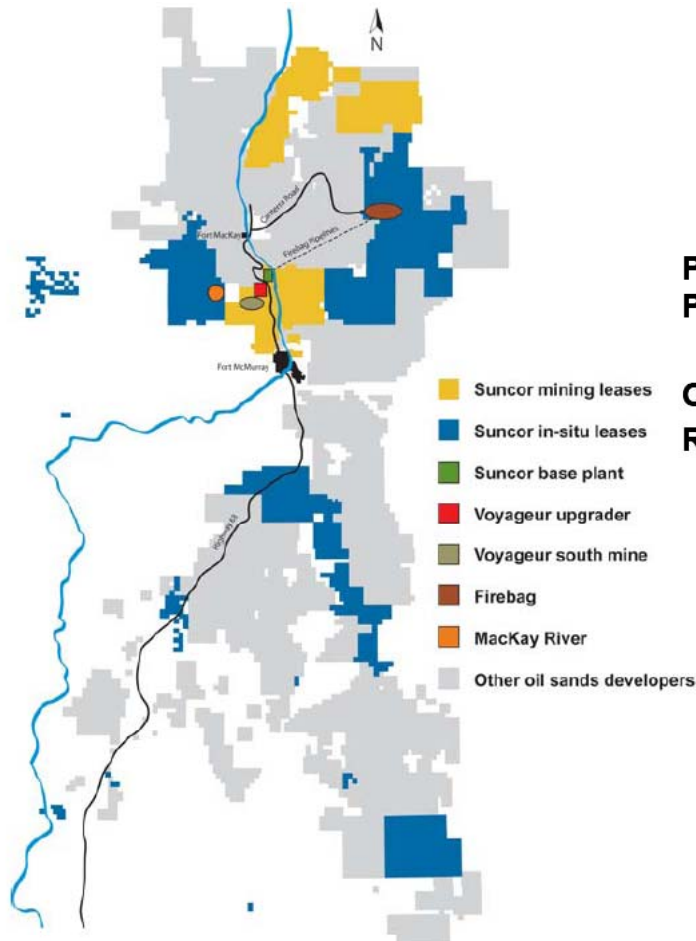
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Proved and Probable barrels 6.1 billion barrels

Other Contingent Resources barrels 16.2 billion barrels

22.3 billion barrels*

Asset Overview



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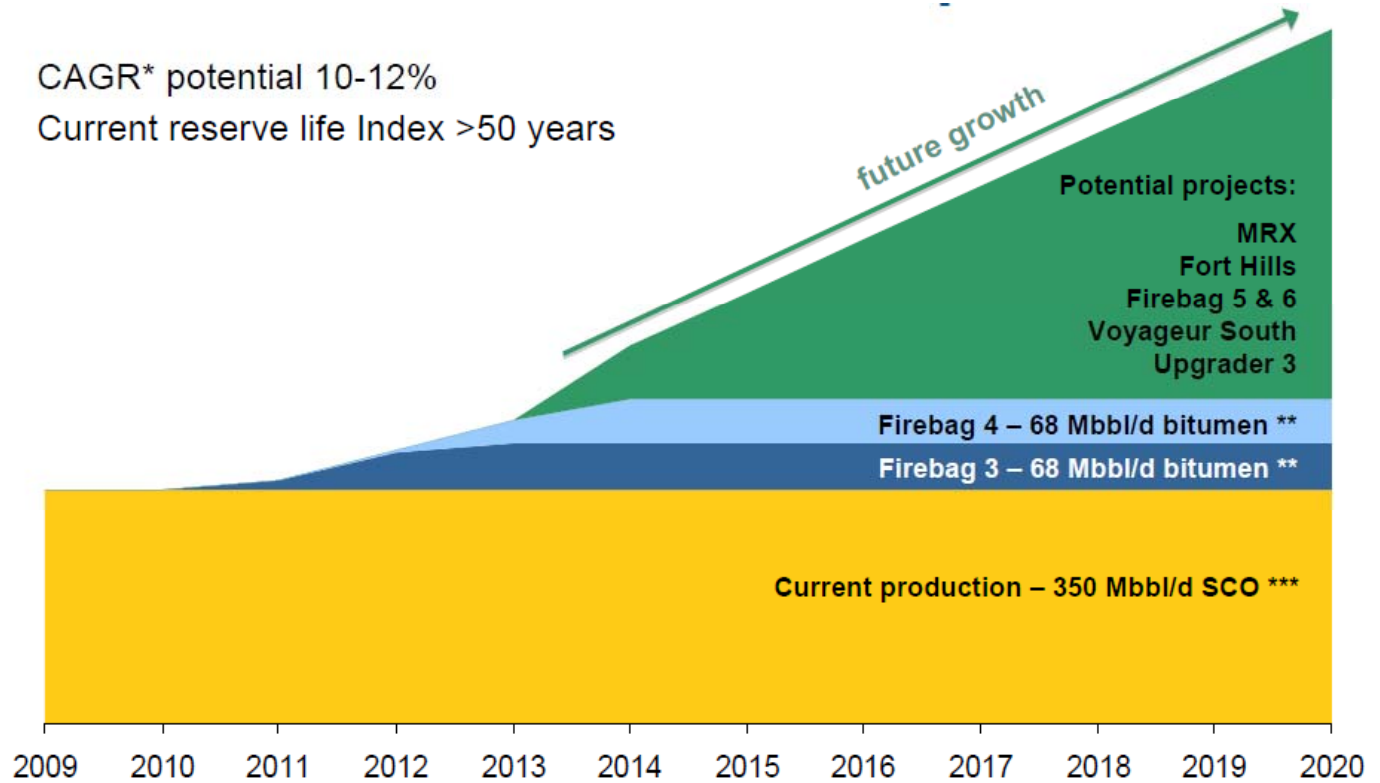
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CAGR* potential 10-12%
 Current reserve life Index >50 years



* Compound annual growth rate
 ** Board approved projects
 *** Does not include Suncor's proportionate production share from the Syncrude joint venture

Phased Oil Sands Growth



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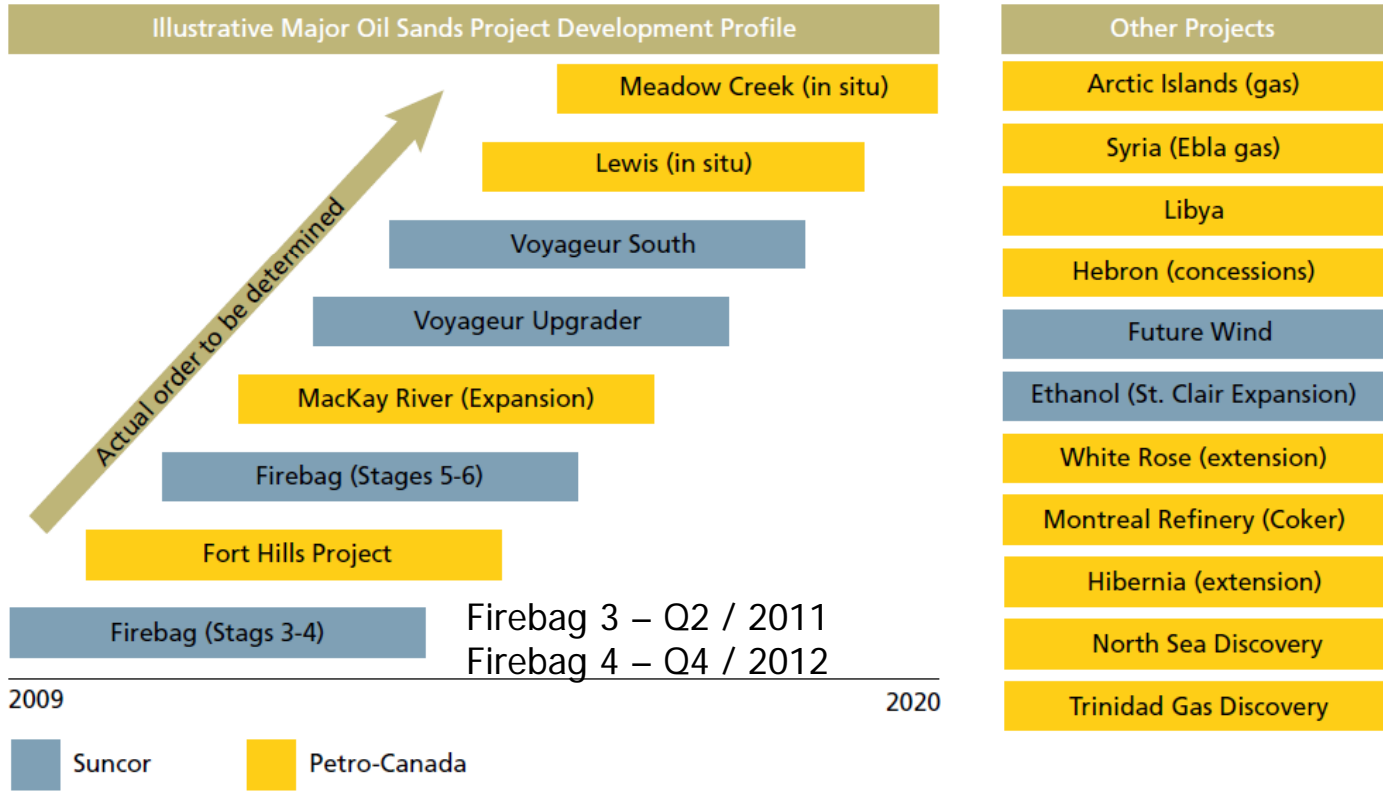
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Pipeline of projects offset lack of clarity regarding Short Hills

Divestitures



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- Announced sale of Trinidad and Tobago natural gas production assets for US\$380 million February 25th
- Non-core assets perceived as low quality, poor fit with Suncor's strategy of deploying capital into large oil sands projects; valued at substantial discount by market but remain attractive to European and state oil companies
- Company has announced sales for 40% of planned divestitures with proceeds of \$1.3 billion – in line with high end of \$2-4 billion management guidance

Management & Board



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Richard L. George, President & CEO

- Appointed in 1991, won "Outstanding CEO of the Year" 1999
- Inducted into Canadian Petroleum Hall of Fame, 2008

Steven W. Williams, COO

- 30 years of energy industry experience
- Appointed to the Board of Governors of the Canadian Association of Petroleum Producers, 2009

Kirk Bailey, Executive VP Oil Sands

- 21 years with Suncor
- Director of the Alberta Chamber of Resources, chairman of the board of the Oil Sands Safety Association

John Ferguson, Chairman of the Board

- Founder and Chairman, Princeton Developments
- Director of Fountain Tire, RBC, C.D. Howe Institute amongst others

Brian Canfield, Chair, Audit Committee & Governance Committee

- Chairman of TELUS Corporation

Market Themes



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- Demand from developing countries and economic growth likely to continue driving the price of crude higher
- OPEC pressure for \$75/barrel oil 2008-2009 demonstrated willingness to significantly reduce production to support prices
- Oil prices have stabilized since late October 2009
- Weaker US dollar increasing oil prices, denominated in USD

Price Projection



Investment Thesis

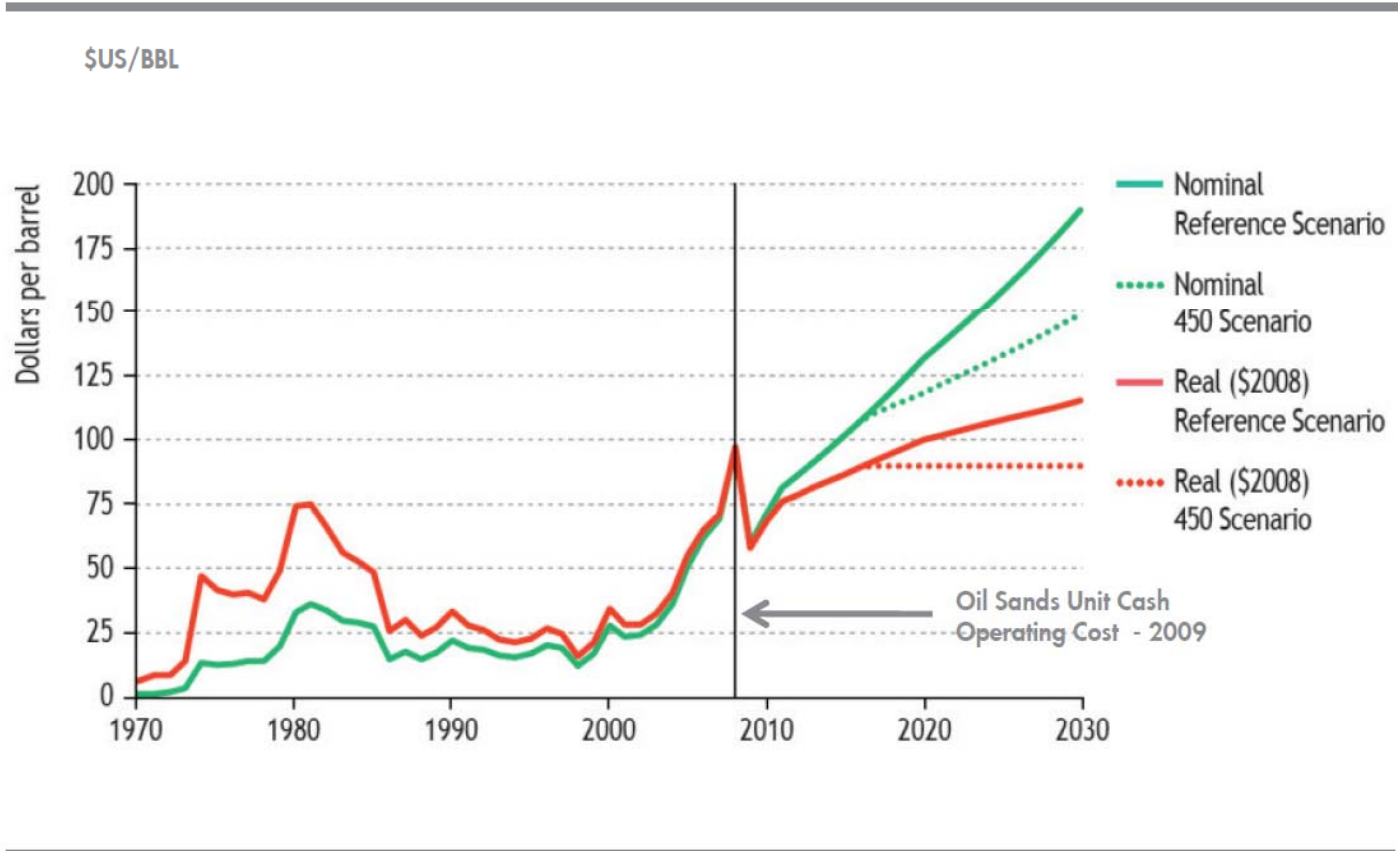
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Competition



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	Market Cap	Oil Sands Activity		Syncrude Participation
 ConocoPhillips	73.75B	Reserves	6 billion bbl	9%
		Production	50,000	
 	32.58B	Reserves	4.6 billion bbl	25%
		Production	100,000 (2012)	
 Syncrude <small>Securing Canada's Energy Future</small>	Private	Reserves	5 billion bbl	100%
		Production	350,000	
	177.23B	Reserves	1 billion bbl	0%
		Production	90,000	
 Canadian Oil Sands Trust	13.87B	Portion of Syncrude Production		36.74%
 SUNCOR ENERGY	48.48B	Reserves	22 billion bbl	12%
		Production	300,000	

Competition



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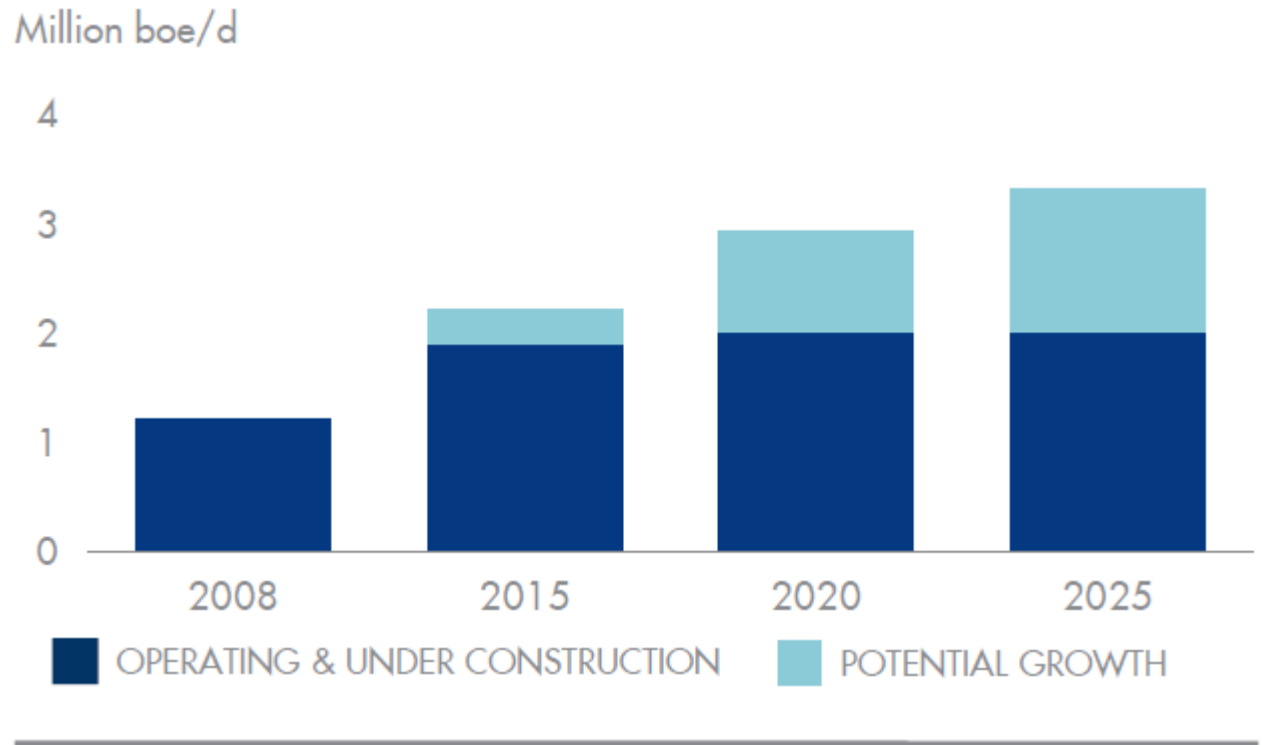
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CANADIAN OIL SANDS PRODUCTION (Industry)



Competition



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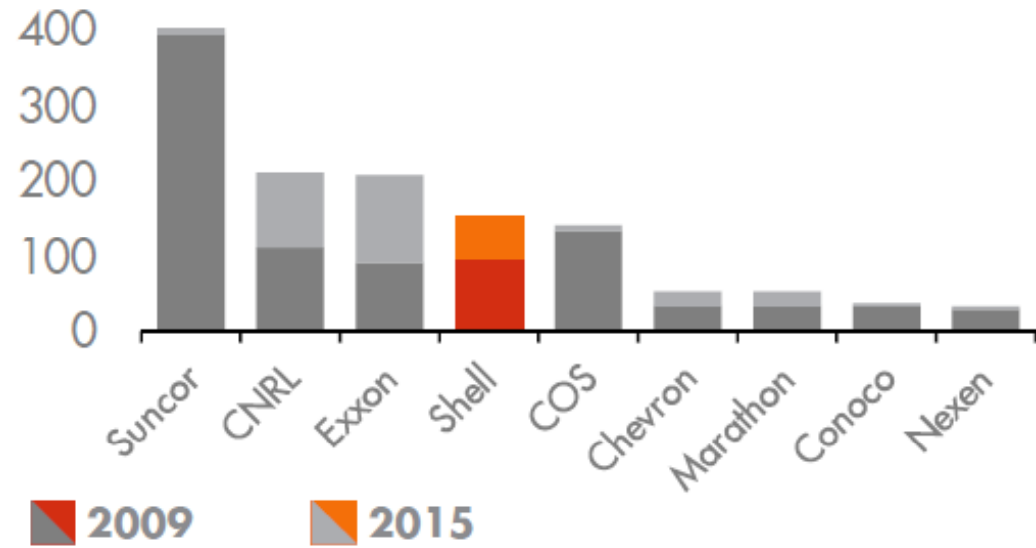
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OIL SANDS MINING CAPACITY

Kboe/d oil sands mining capacity



Net Asset Value



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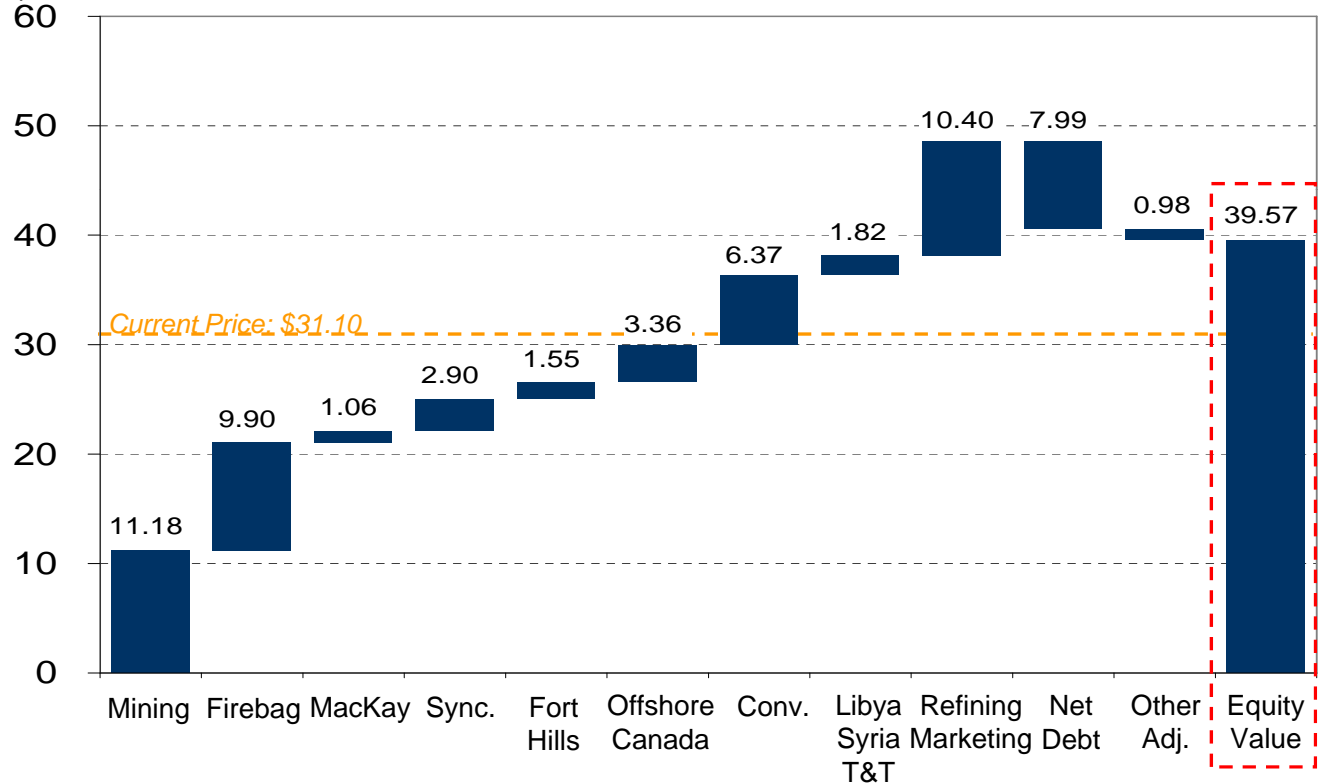
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Net Asset Value

Riskd NAV Based on Forward Strip Pricing

\$/ Share



Significant 'Margin of Safety'

Risks



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- Failure to divest remaining 60% of non-core assets at attractive valuations

- High operating leverage (fixed costs) increases sensitivity to the price of oil

NAV Sensitivities	
Crude Oil (\$/Bbl)	NAV \$/Share
60	28.73
70	32.95
80	37.78
90	43.32
100	49.67
Strip	39.57

- Delays in repairs and production resuming (new guidance to be released with Q1 results on May 4th). At present, no change for full-year guidance expected

- Controversy surrounding Syncrude could mean stricter environmental regulations

Recommendation



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Buy 100 @ 31.63