

Desautels Capital Management

Suncor Pitch

Alessio Marcogliese
Noah Petkau
Eric Van Hees
Riley Wolever

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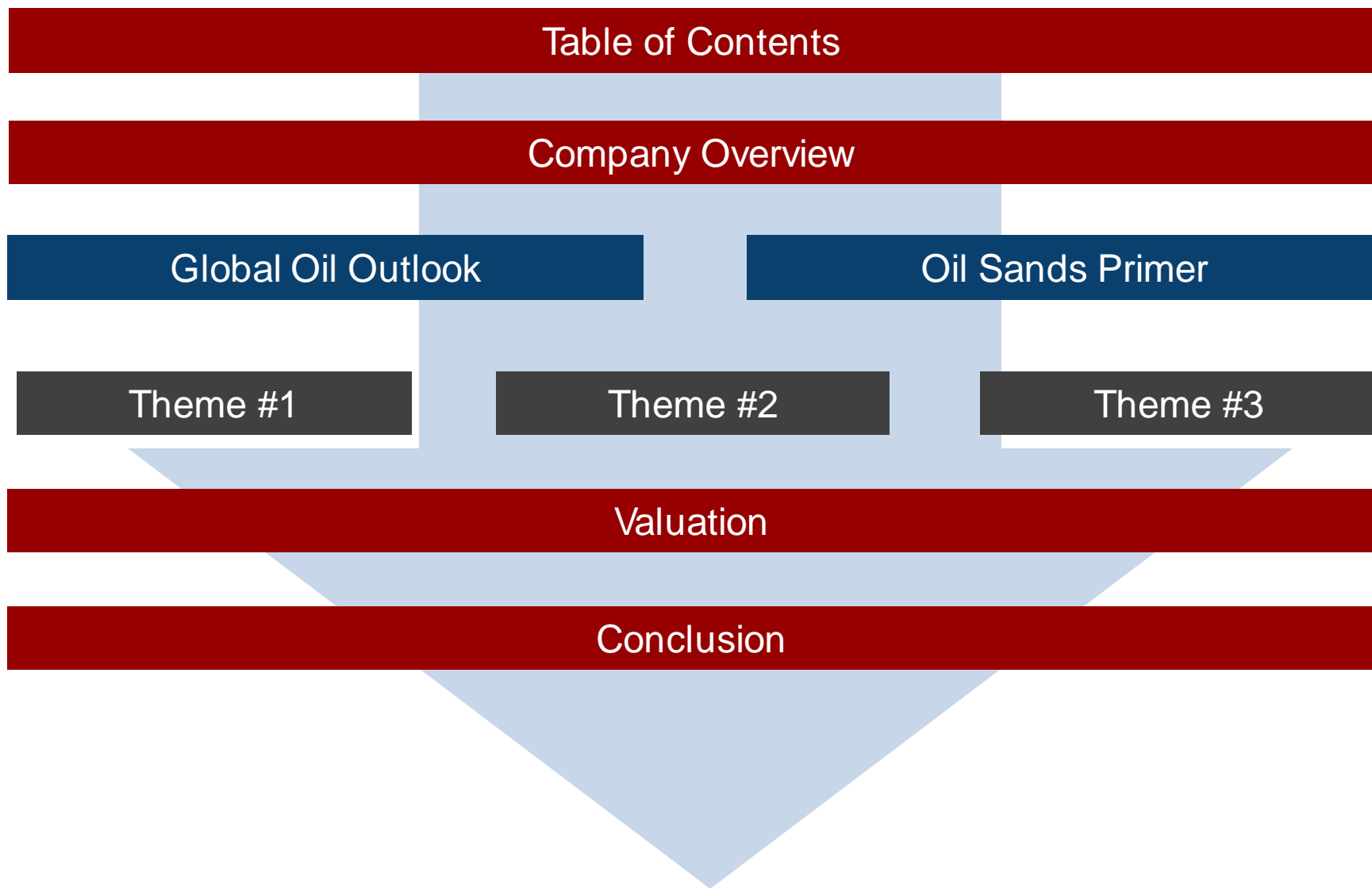


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I. Company Overview

Suncor Overview

Big Oil Sands Player

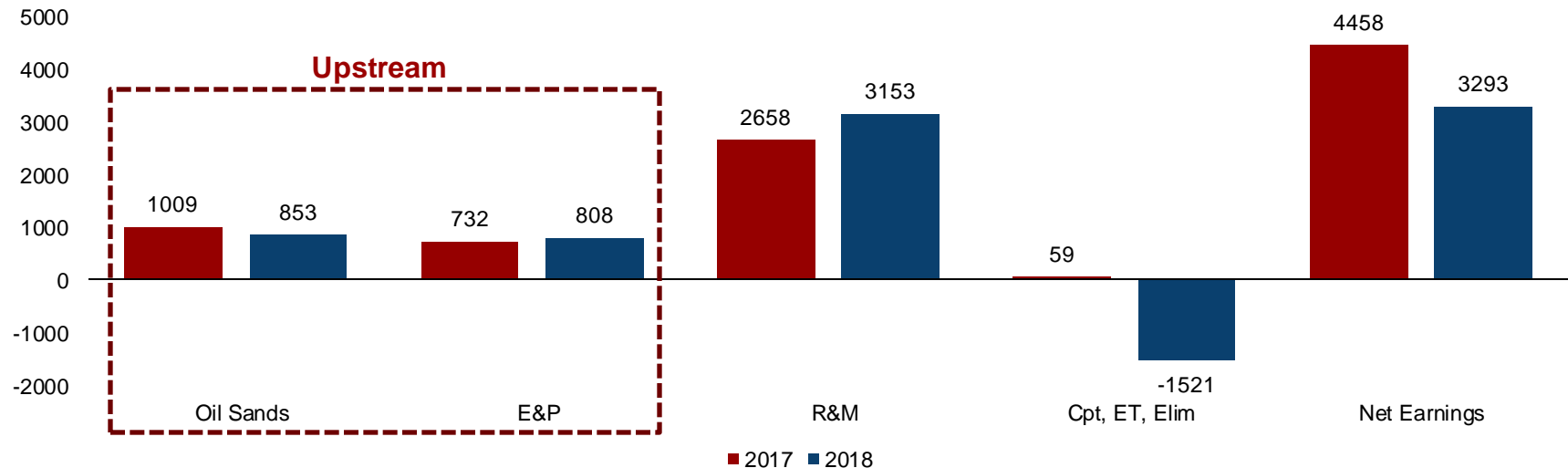
Company Overview

- Operating since 1967, public since 1991. Focused on developing the Athabasca Oil Sands
- Production, midstream upgrading, and downstream refining and fuel marketing through brands Petro-Canada, Shell, Exxon, and Mobil
- Recent moves saw Petro-Canada purchase (2009) and Canadian Oil Sands (2015) as well as divestment of non-core offshore assets
- Fort Hills and Hebron ramp-up ongoing
- 830,000 boe/d production in Q4 2018

Financial Information

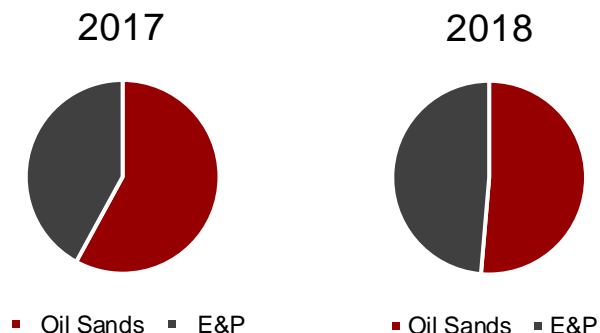
Current Market Valuation	
Share Price	\$44.92
Shares Outstanding	1579.9m
Market Cap	\$70,968.8
+ Total Debt	\$17,350.0
+ Minority Interest	\$0.0
+ Preferred Shares	\$0.0
- Cash	\$2,221.0
Enterprise Value	\$86,097.7

Production by Segment



Source: Company Filings

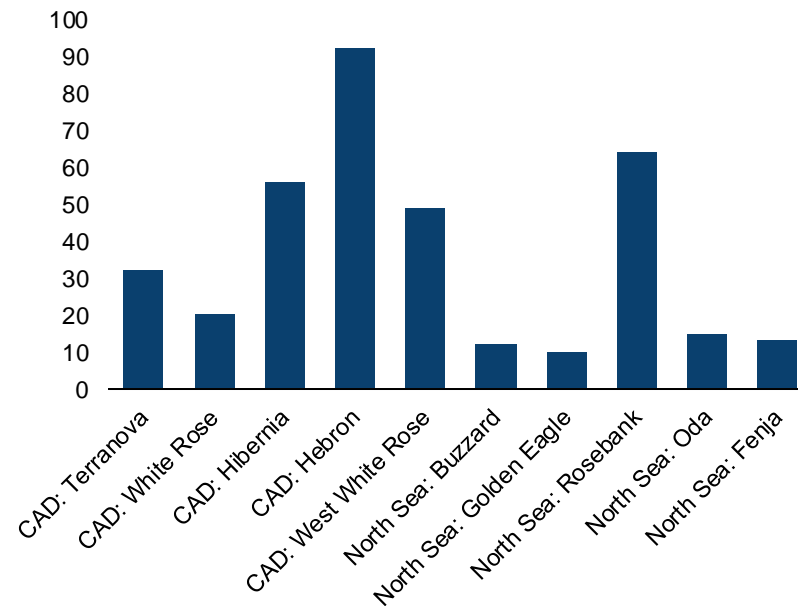
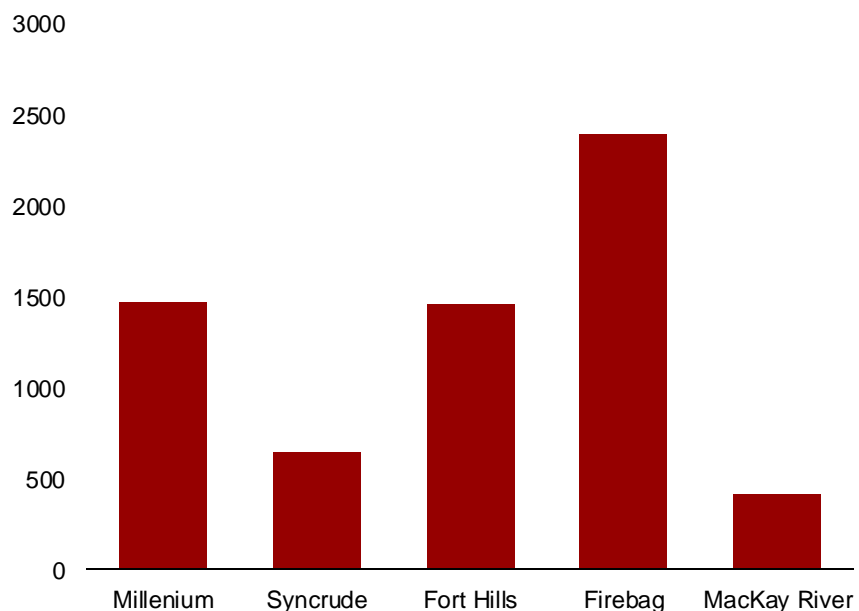
Segment Contribution to Net Income



Recent History

- Recent moves saw Petro-Canada purchase (2009) and Canadian Oil Sands (2015) as well as divestment of non-core offshore assets
- In 2010 and prior Suncor divested of more than \$2.4b in assets in the Netherlands, Trinidad and Tobago, all oil and gas producing assets in the US Rockies, and 6100 boe/d producing natural gas assets in Alberta and Saskatchewan

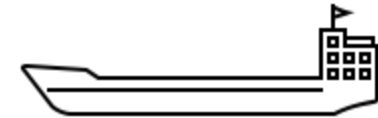
Reserves By Operation – Canada and International (mmboe)



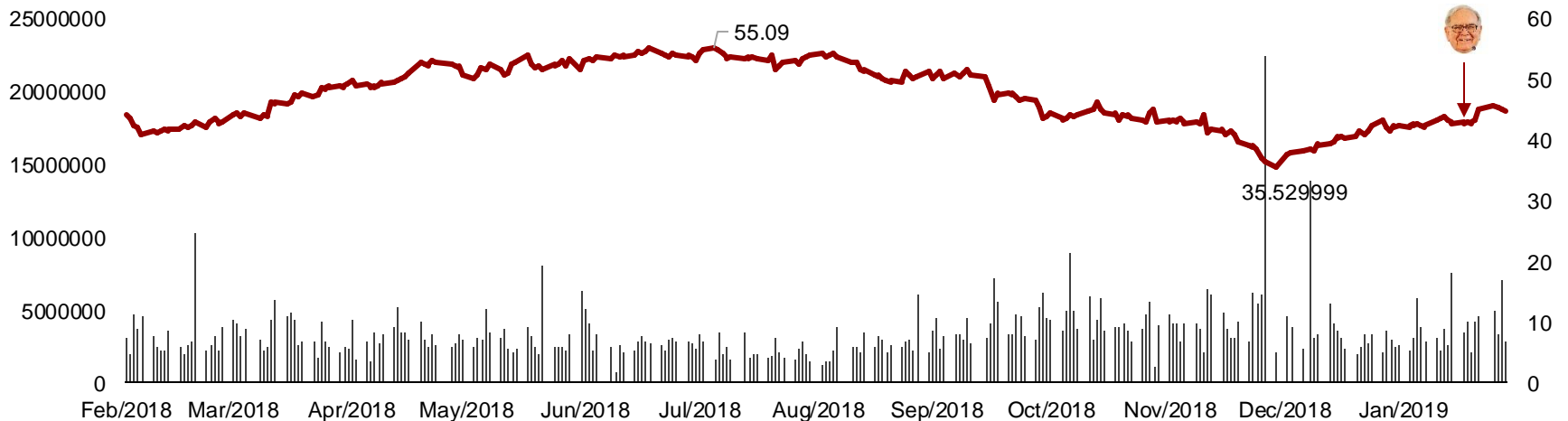
Source: Company filings, Evercore ISI

Company Strengths

- Significant profitable downstream operations in diverse geographic regions – East, West, Central, US Colorado
- Heavily liquid-weighted – better positioned than gas producing peers to benefit from valuation uptick in Canada
- Limited exposure to bunker fuel production issues globally



Price History



Suncor has been rallying since the end of December

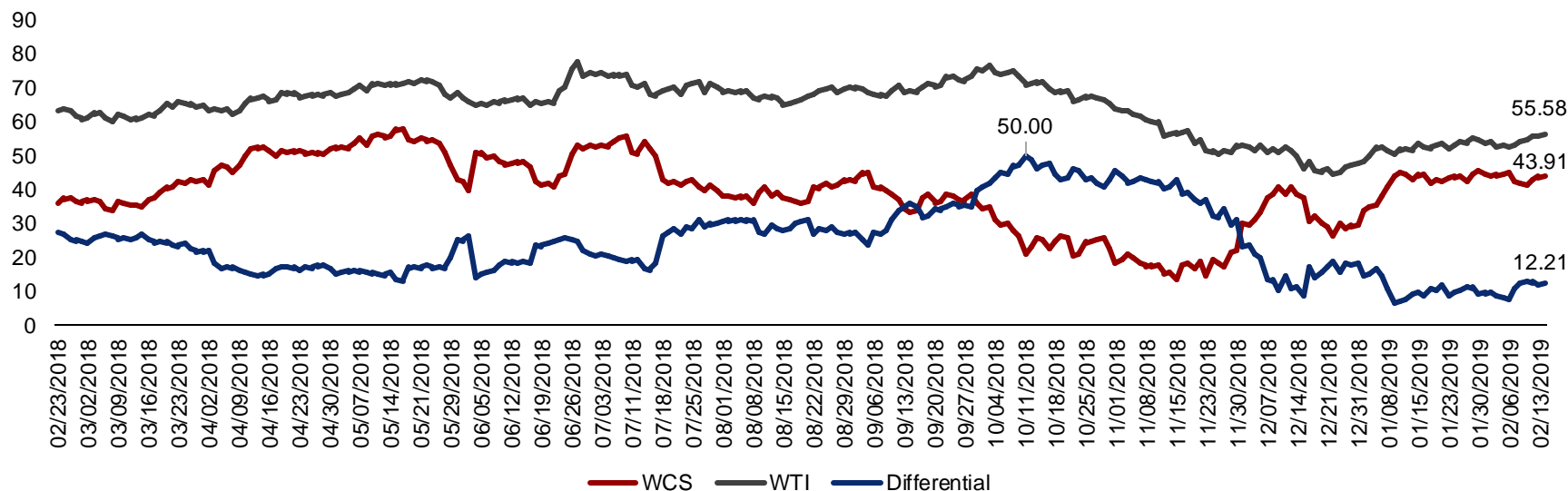
Source: Company Filings, Bloomberg

II. Global Oil Outlook and Oil Sands Primer

Price Outlook

The Year That Was

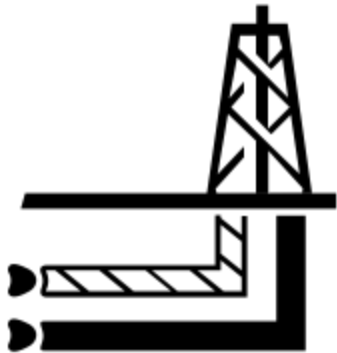
WCS-WTI Price YTD



- Constriction of supply by the Alberta provincial government has led to the narrowing of the differential between WCS and WTI
- WTI and global Brent prices have rallied from December lows alongside the market as investor optimism has increased
- Despite heavy oil sands focus, Suncor processes more than 2/3 of production in refineries on the East and West coasts of Canada and in Colorado with exposure to international and American markets

170 billion barrels

In-Situ and Surface Mining



80% of oil sands reserves can be extracted in-situ

- Steam-assisted gravity drainage techniques most common, energy intensive but smaller footprint
- Reserves at least 200m below ground
- Bitumen produced is separated from water, **upgraded** to synthetic crude, or sold as “Dilbit” – diluted bitumen



20% of oil sands reserves require open-pit extraction

- More invasive and environmentally destructive method, significantly greater footprint and heavier water usage
- Greater total bitumen recovery
- Less sunk costs and uncertainty around an open pit mine investment
- “Ore” is blended, processed, and diluted for shipment

Canadian Oil Sands Primer

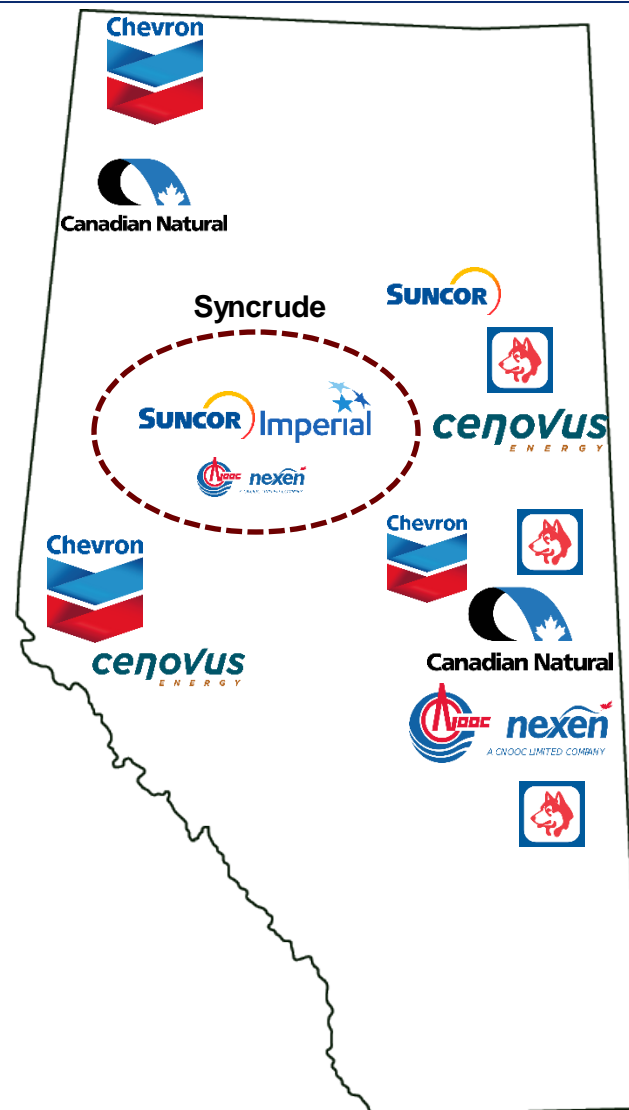


Overview

Major Players

Firm	Market Cap (B)	Total Production (BOE/day)	Production Mix Oil %
Median	15.98	414.7	76.30
Suncor	70.97	767.29	100
Crescent			
Point	2.17	175.28	79.54
Husky	15.98	306.23	66.55
Cenovus	14.36	445.56	76.31
Imperial Oil	28.57	395.75	93.29
CNRL	44.34	1070	70.41
Encana	13.57	414.7	24.36

- Syncrude is a consortium owned oilsands operation in which Suncor retains majority ownership
- Most oilsands operators have a liquid-weighted operations portfolio, but none to the extent that Suncor does
- Suncor, unlike other firms here, also has divested of many non-core off shore operations – unlike Imperial Oil and Nexen most notably which retain offshore assets in greater proportions



Sources: Oilsandsmagazine

Canadian Oil Sands Political Outlook

Political Developments – Canada Votes in 2019

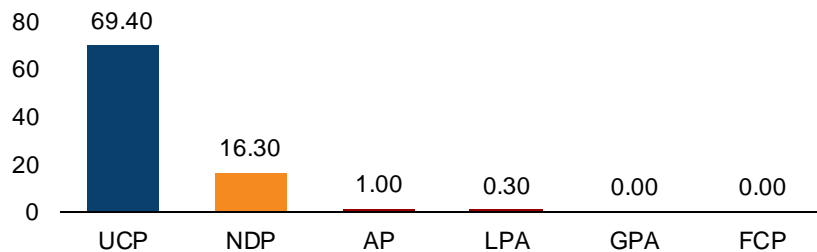
Alberta On Track

- Alberta unlikely to surprise in upcoming provincial election
- Oil-friendly New Democratic Party likely to lose in a landslide to more oil-friendly United Conservative Party
- 338 Canada projects 100% chance of a UCP majority – obviously take this with a grain of salt

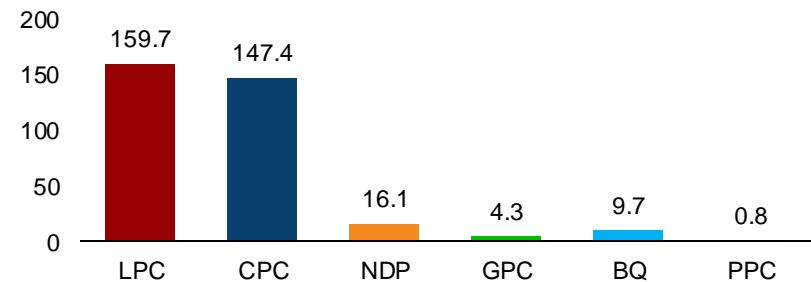
Federal Surprise?

- Recent controversy surrounding SNC-Lavalin and Jody Wilson-Raybould’s tenure as Justice Minister has led to an unexpected Liberal slump
- Statistical projections by 338Canada give the CPC 51% chance of winning the most seats, the LPC 48% - chance of an CPC or LPC majority – 20%

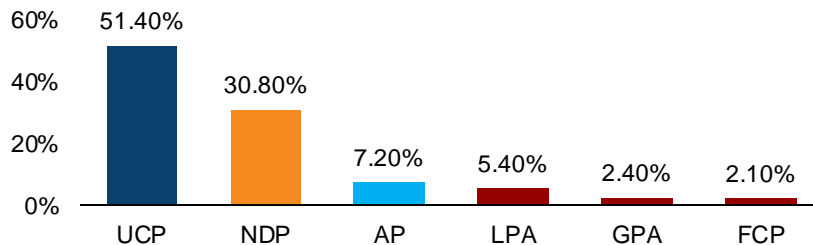
Seat Count



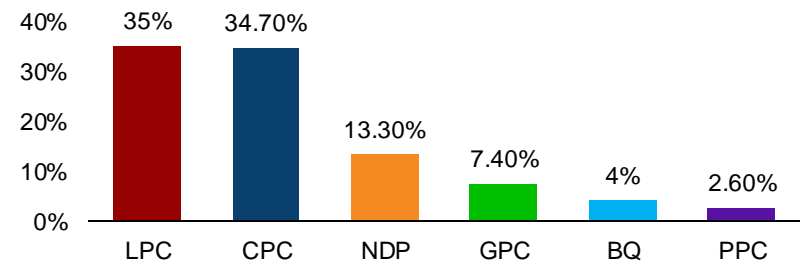
Seat Count



Popular Vote



Popular Vote



Alberta is a lock for the UCP, Canada is a toss-up between LPC and CPC

Sources: 338Canada, P.J Fournier

1

Transportation backlog situation improving

- Canadian political situation could be improving
- Trans Mountain Expansion was approved following the NEB decision announced February 22nd



2

Improving regulatory and political environment

- Investor confidence in regulatory approvals process likely improved by TM approval
- Bill C-69 still a potential risk (see: C.D Howe Institute)



3

Improving optimism from investors

- Warren Buffett's well publicized investment in late 2018 reflective of an improving attitude towards Canadian heavy oil companies amid existing fears



III. Investment Themes

Suncor is positioned well for long term value creation

Suncor is a strong buy for the following reasons:

- 1 Benefits of holding an integrated major oil company
- 2 Unjustified market pessimism
- 3 Suncor's downstream operations more robust in a downturn scenario than competition

BUY

Investment Theme #1

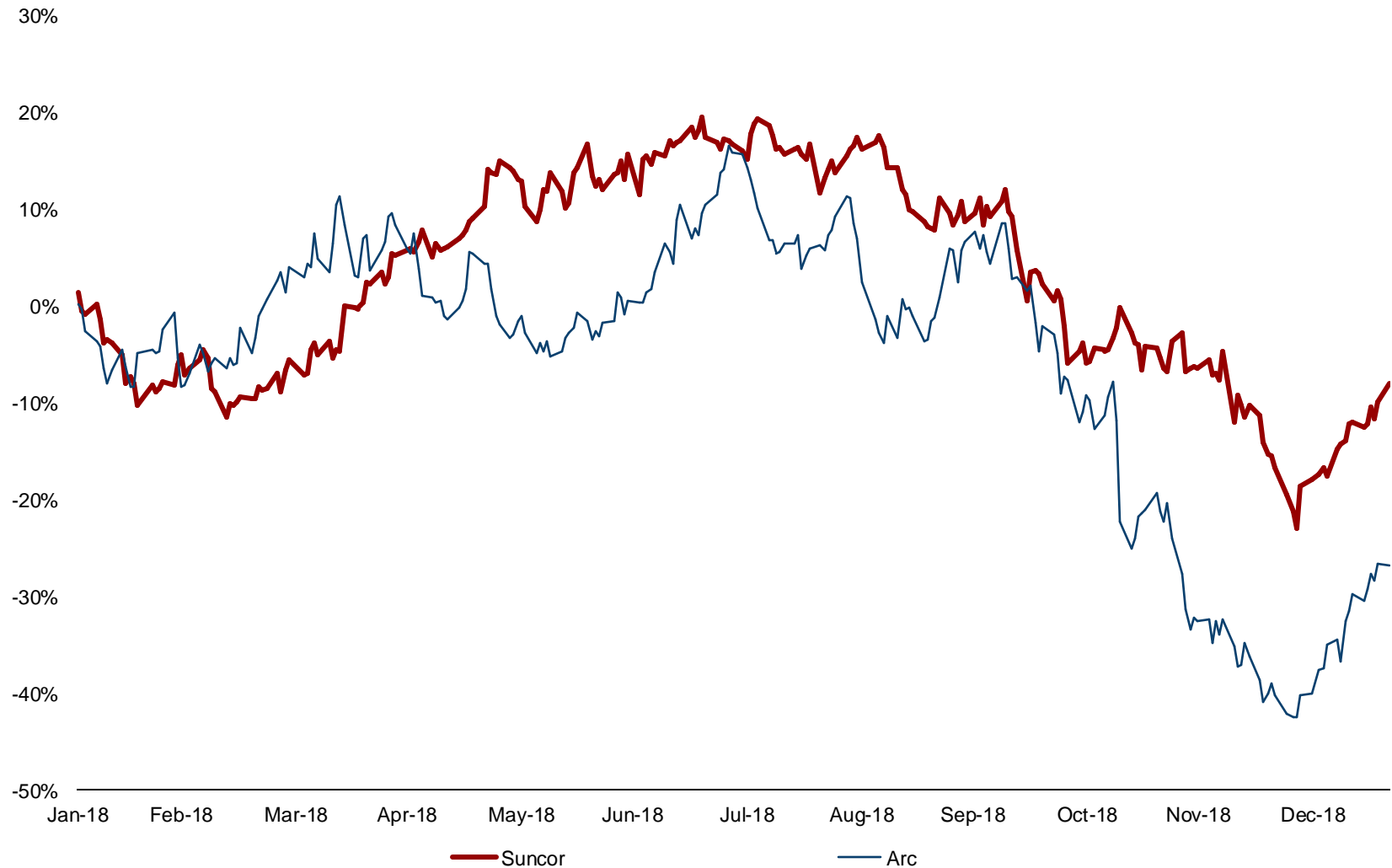
Suncor offers more efficient integration than peers



Graphical Analysis



Integrated Majors vs. Oilsands Pureplay



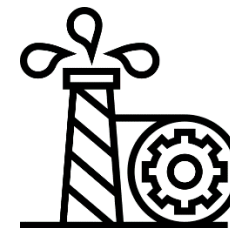
Integration reduces volatility, because downstream helps ensure a more stable performance

Suncor's integration brings stability



Suncor's exposure to liquids and distinct integration process makes it the optimal Canadian integrated major.

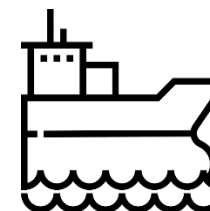
Higher Crack
Spreads



Superior
Operational
Efficiency



Refinery Risk
Mitigation



Upstream Operational Efficiency

Suncor's upstream extraction process generates higher netback due to scale and efficiency

A	Upstream Field Netback (\$/BOE)	2017	2018	2019	2020
	Canadian Natural Resources	\$ 48.53	\$ 54.15	\$ 50.14	\$ 48.76
	Cenovus	\$ 18.34	\$ 18.94	\$ 16.11	\$ 11.75
	Encana	\$ 14.88	\$ 20.78	\$ 19.27	\$ 20.08
	Husky	\$ 25.72	\$ 24.44	\$ 27.12	\$ 24.66
	Imperial Oil	\$ 8.24	\$ 5.25	\$ 8.36	\$ 1.83
	Meg	\$ 26.94	\$ 23.95	\$ 23.51	\$ 14.80
	Average	\$ 25.16	\$ 26.52	\$ 25.49	\$ 22.02
	Suncor	\$ 33.44	\$ 38.13	\$ 33.93	\$ 32.25

Netback

Netback: price you can sell you can achieve selling to other downstream players

Although their downstream is a core part of their business their upstream segment is incredibly efficient due to scale

Their netback achieved is particularly strong in comparison to industry

B	%Natural Gas	2017	2018	2019	2020
	Canadian Natural Resources	29%	24%	24%	23%
	Cenovus	23%	18%	14%	13%
	Encana	59%	53%	47%	45%
	Husky	28%	28%	27%	27%
	Imperial Oil	5%	5%	5%	7%
	Meg	0%	0%	0%	0%
	Average	21%	18%	17%	16%
	Suncor	0%	0%	0%	0%

C	ROE Past 3 Years	2018
	Canadian Natural Resources	7.22%
	Cenovus	-8.80%
	Encana	9.41%
	Husky	5.01%
	Imperial Oil	1.21%
	Meg	6.08%
	Average	3.36%
	Suncor	7.24%

Source: Bloomberg, Calgary Herald

Suncor's integration brings stability

How does Suncor differentiate themselves vis-à-vis their competitors

Downstream Capacity	2017	2018	2019	2020
Cenovus	230	230	241	241
Husky	287	326	326	326
Imperial Oil	421	421	421	421
Average	350	360	363	363
Suncor	462	462	462	462

Downstream Capacity

Downstream Margins	2017	2018	2019	2020
Cenovus	\$ 16.84	\$ 21.11	\$ 16.42	\$ 18.29
Husky	\$ 13.09	\$ 18.62	\$ 17.61	\$ 19.17
Imperial Oil	\$ 29.79	\$ 40.94	\$ 37.58	\$ 40.44
Average	\$ 14.96	\$ 19.86	\$ 17.01	\$ 18.73
Suncor	\$ 25.67	\$ 35.68	\$ 35.00	\$ 36.33

Downstream Margins

Suncor's integration is well positioned to meet global demand trends



IMO regulation enhances demand for middle distillates used in new marine fuel.

Global Trends

- Decreasing Global demand for bunker fuel
 - IMO regulation pushing for cleaner and more efficient fuels
- Increasing global pricing for diesel
- Increasing value for synthetic crudes

Suncor's Competitive Advantage

- Minimal exposure to bunker fuel
 - Downstream exposure to bunker fuels (1%)
- Strong diesel production
 - 40% of their production is tied to diesel
- Strong diesel production
 - 40% of their production is tied to diesel

Suncor can meet the changing demand more efficiently than other Canadian Integrators

- Tangible quantitative benefits are factored into our NAV due to higher achieved price
- Most oil sands competitors do not have the integration to adjust their refining capability
- Imperial Oil + Husky energy have around a 4-5% to bunker fuel
- We factor this into our NAV model later on – this impacts the analysts view of the value of the refining and marketing segment of the business
- Refineries positioned not only on both coasts but also in Colorado diversify the markets that Suncor can reach – refineries that can process 2/3 of Suncor's total production
- Intake of 'outside' crude from Colorado companies also diversifies the prices at which they're purchasing feed

Due to Suncor's integrated model they can optimize operations under changing market conditions

Source: Company Filings, Canadian Association of Petroleum Producers, Financial Post

Investment Theme #2

Unjustified market pessimism

“My flight back west was delayed at Toronto’s Pearson Airport, and I got talking to a Calgary banker, who was also homeward bound after a circuit around Bay Street. “Capital is thin right now,” she said. “Upstream investment for Canadian oil and gas is just a no-go: It’s not a matter of risk premium. No one knows how to price the politics.””

- February 25th, 2019, Globe and Mail



INSTITUT
C.D. HOWE
INSTITUTE

Grant Bishop, Associate Director

“The chief executives of Canada’s biggest bank and its largest pipeline company warned Wednesday that the country is at risk of squandering a huge advantage if it does not come together to tap the potential of the energy industry.”

- February 21st, 2019, Financial Post

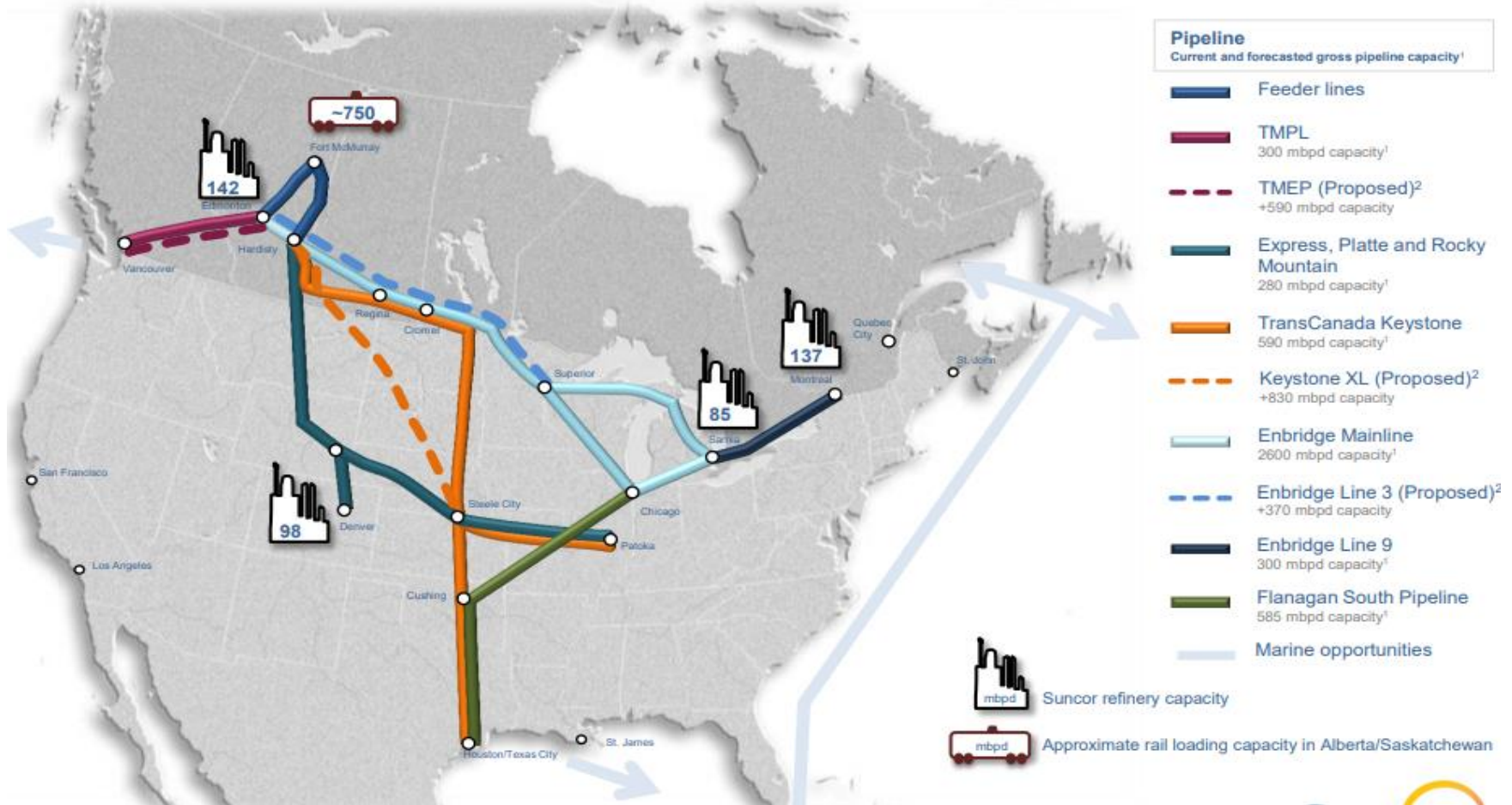


On the discussion between
Enbridge and RBC CEOs

Current Pipeline Politics



Pricing politics is impossible but the differential appears to be overblown by analysts in equity research.



“No one knows the price of politics.”

Oil and Gas Companies moving out of Alberta since 2017



With companies overreacting about politics, this can present an interesting opportunity for WCS's long-term rebound



+

devon



+



+

=



\$56Billion

Several integrated and prominent upstream players have pulled out of the oil sands, totaling a total loss of 56 Billion dollars.

How can pipelines come and ease the differential?

Pricing politics is impossible but the differential appears to be overblown by analysts in equity research.

“The stock is hated, the sector is despised, and nobody wants to touch anything oil related with a barge pole. And that’s exactly what makes Suncor stock attractive to contrarians.”



EVERCORE



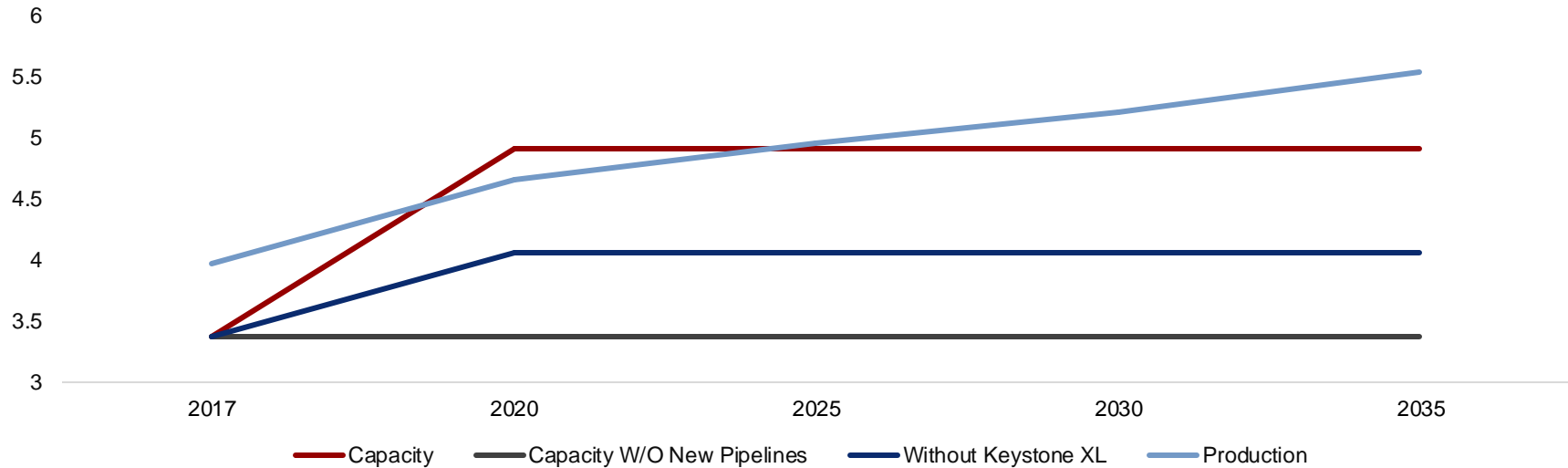
Commodity outlook

SCO Differential	1.0%
Bitumen Price % of WTI	50.0%
WCS differential	-40.0%

Have analysts assumed an overly aggressive discount between WCS and WTI?

Equity Research overestimates differential

IMO regulation enhances demand for middle distillates used in new marine fuel.



Assumptions

- Equity research aggregate differential of 40%
- Current Alberta supply cuts will run out
- Minimum Differential: around 15% based off oil quality
- Highlight the impact of transportation
- 5% differential increase per 500k BOE
- *Industry Standard based assumptions*



Pricing the differential

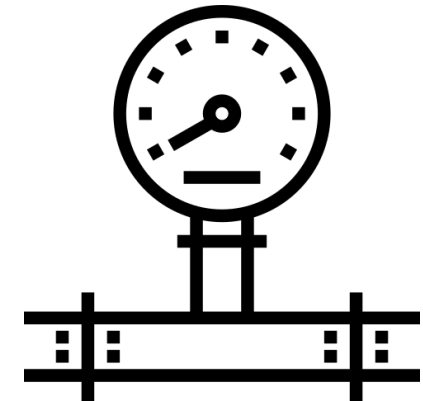
Political Developments – Canada Votes in 2019

Alberta On Track

Excess/Shortfall					
Without Pipelines	0.589	1.279	1.589	1.839	2.159
Without Keystone XL	0.589	0.591	0.799	0.549	0.229
All Pipelines	0.589	-0.259	-0.051	-0.301	-0.621

Multiplier Effect					
Without Pipelines	6%	13%	16%	18%	22%
Without Keystone XL	6%	6%	8%	5%	2%
All Pipelines	6%	-3%	-1%	-3%	-6%

Actual Differential Percentage					
Without Pipelines	21%	28%	31%	33%	37%
Without Keystone XL	21%	21%	23%	20%	17%
All Pipelines	21%	15%	15%	15%	15%



Assumptions

Measured in Millions BOD
 Excess is carried by rail
 Rail costs 5% per 500K BOD
 Natural Differential 15%

Equity Research is somewhat overly hostile to the differential

Investment Theme #3

Downstream more robust than assumed

Crude Oil and Gasoline Prices don't move together




WCS Price volatility is creating uncertainty in Suncor

Misconception of the correlation between Upstream + Downstream

- We ran a regression around the price of WCS and price of gasoline
- Operations: 60% downstream, 40% Upstream
- There does not appear to be a strong correlation between the price of crude and gasoline prices.
- Although most energy companies stand to benefit from higher crude prices, Suncor can benefit by selling at lower costs to their downstream operations.
- If crude per barrel increases by a dollar then gasoline moves by less than a dollar.

Regression Statistics

Multiple R		0.420593
R Square		0.176899
Adjusted R Square		0.175534
Standard Error		9.185701
Observations		605

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	91.96258872	2.027815783	45.35056	0%	87.98014939	95.945028	87.98014939	95.94502805
X Variable 1	0.597247678	0.052463842	11.38399	0%	0.49421363	0.70028173	0.49421363	0.700281725

The market assumes WCS uncertainty will have a proportional impact on gasoline prices.

Source: CBC, Canadian Association of Petroleum Producers, Financial Post

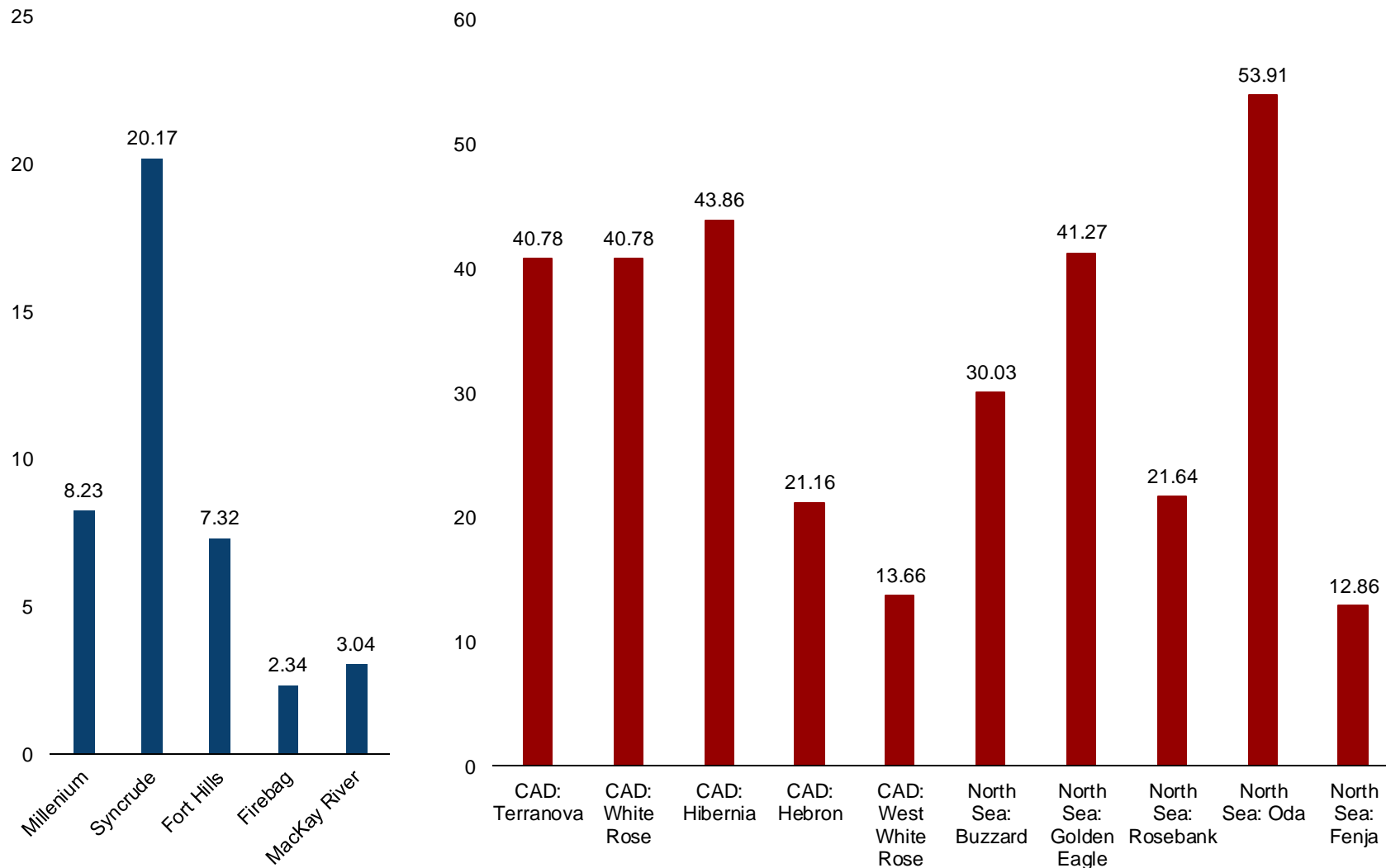
Valuation

NAV Results

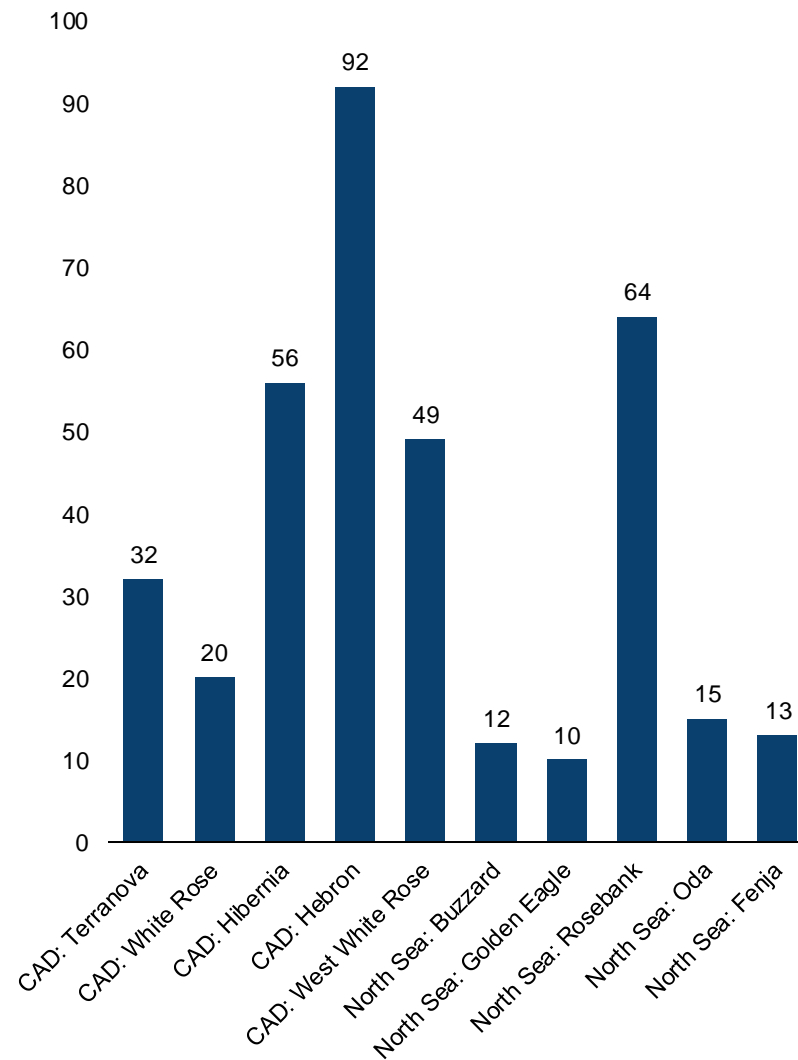
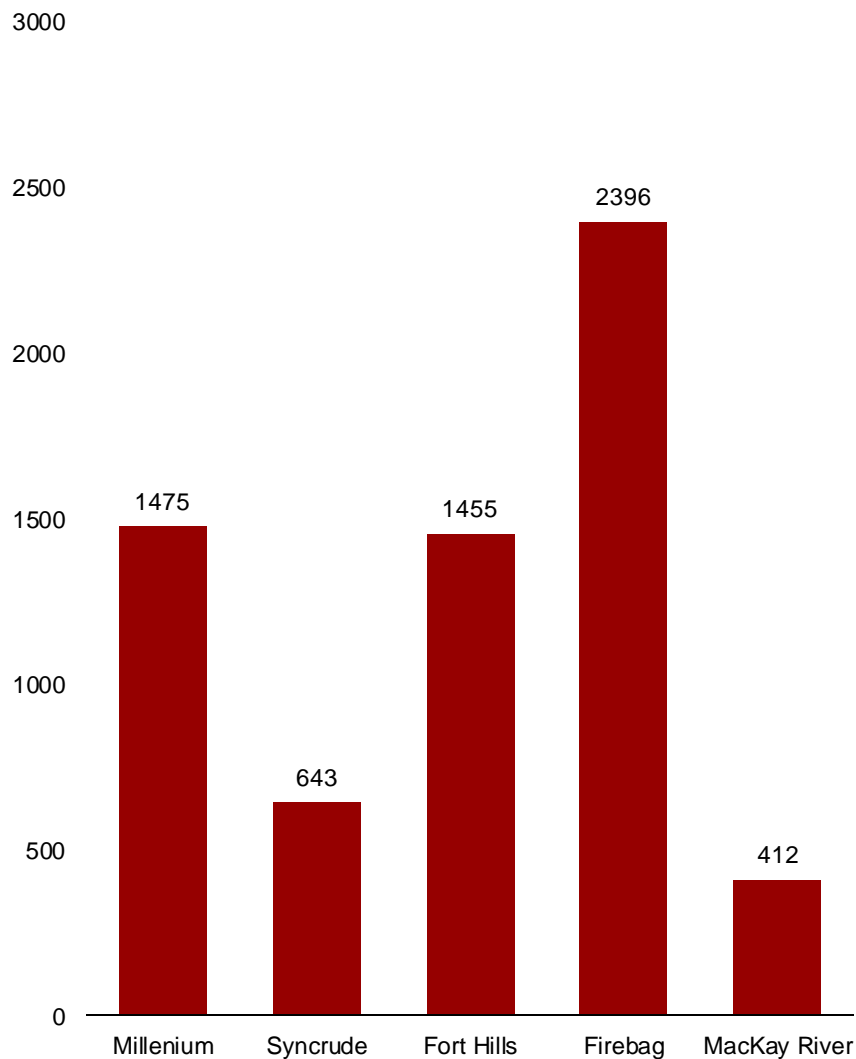


PD Reserves	Reserves (mmboe)	Value*	\$/BOE	\$/share	Other Value	FV	FV
Mining	1923	34319	17.85	21.08			
In-Situ	251	9923	39.54	6.1			
E&P	43	2163	50.5	1.33			
North Sea	57	3202	55.85	1.97			
Total	2274	49607	26.0651	30.47	1903.19		496070
Oil Sands/Heavy Projects							
Millenium	1475	12250	8.23	7.46			
Syncrude	643	12978	20.17	7.97			
Fort Hills	1455	11233	7.32	6.54			
Firebag	2396	6072	2.34	3.44			
Mackay River	412	1515	3.04	0.77			
Total	6381	44046.9	10.5256	26.18	4184.8		440468.8448
E&P Offshore							
CAD: Terranova	32	1317	40.78	0.81			
CAD: White Rose	20	820	40.78	0.51			
CAD: Hibernia	56	2446	43.86	1.5			
CAD: Hebron	92	1941	21.16	1.19			
CAD: West White Rose	49	675	13.66	0.41			
North Sea: Buzzard	12	373	30.03	0.23			
North Sea: Golden Eagle	10	418	41.27	0.58			
North Sea: Rosebank	64	1389	21.64	0.4			
North Sea: Oda	15	808	53.91	0.4			
North Sea: Fenja	13	173	12.86	0.11			
Total	365	10360	33.6887	307.5218497	323.80		103600
Refining and Downstream							
R&M Valued at a 6x multiple		13681		8.4			
Adjustments							
Cash		2221					
Debt		-17350					
ARO		-6856					
Total		-21984					
				Implied Share Price	Current		
Net Equity Value		95710.884		60.58034336	44.98		
Discount Rate: 10%							

Assumed Realised \$/BOE by Operation



2P BOE Reserves Assumptions



Implied Share Price						
Oil Price		Discount Rate				
		8%	9%	10%	11%	12%
		\$18	\$67.92	\$59.79	\$53.28	\$47.96
\$20	\$76.05	\$67.01	\$59.79	\$53.87	\$48.95	
\$22	\$84.18	\$74.24	\$66.29	\$59.79	\$54.37	
\$24	\$92.31	\$81.47	\$72.80	\$65.70	\$59.79	
\$26	\$100.44	\$88.69	\$79.30	\$71.61	\$65.21	
\$28	\$108.57	\$95.92	\$85.80	\$77.53	\$70.63	

NAV Sensitivity

- Sensitized the analysis to Suncor’s realized price of oil by play
- Sensitized the analysis to discount rate – past the typical O&G hard 10%

Implied Upside						
Oil Price		Discount Rate				
		8%	9%	10%	11%	12%
		\$18	51.0%	32.9%	18.5%	6.6%
\$20	69.1%	49.0%	32.9%	19.8%	8.8%	
\$22	87.1%	65.1%	47.4%	32.9%	20.9%	
\$24	105.2%	81.1%	61.8%	46.1%	32.9%	
\$26	123.3%	97.2%	76.3%	59.2%	45.0%	
\$28	141.4%	113.3%	90.8%	72.4%	57.0%	

Comparable Companies



Company	Ticker	EV	Mkt Cap	Production (mboe/d)		Upstream Netback/BOE		EV/EBITDA		EV/Production		EV/Reserves	
				2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Peers													
Canadian Natural Resources Limited	CNQ	70.60	44.34	963	1077	48.5 x	54.2 x	8.7 x	7.1 x	73.3 x	65.6 x	11.0 x	nd
Husky	HSE	26.32	15.98	323	299	25.7 x	24.4 x	5.20 x	4.5 x	81.5 x	88.0 x	37.7 x	nd
Imperial Oil Ltd	IMO	37.17	28.27	375	378	8.2 x	5.3 x	13.10 x	7.4 x	99.1 x	98.3 x	32.7 x	nd
Cenovus Energy	CVE	20.18	14.36	471	479	18.3 x	18.9 x	9.70 x	10.3 x	42.8 x	42.1 x	19.2 x	18.2 x
Encana	ECA	20.79	13.57	313	361	14.9 x	20.8 x	6.40 x	7.2 x	66.4 x	57.6 x	50.9 x	nd
Average		35.01	23.30	489.00	518.80	23.1 x	24.7 x	8.62	7.30	72.6 x	70.3 x	30.3 x	18.2 x
Median		26.32	15.98	375.00	378.00	18.3 x	20.8 x	8.70	7.20	73.3 x	65.6 x	32.7 x	18.2 x
Suncor	SU	86.09	71.0	685.0	732.0	32.9 x	38.1 x	7.6 x	7.0 x	125.7 x	117.6 x	34.7 x	nd

Reserves	EBITDA	TEV to Equity Shares	Production
9.09	12.42	19.57	1.58

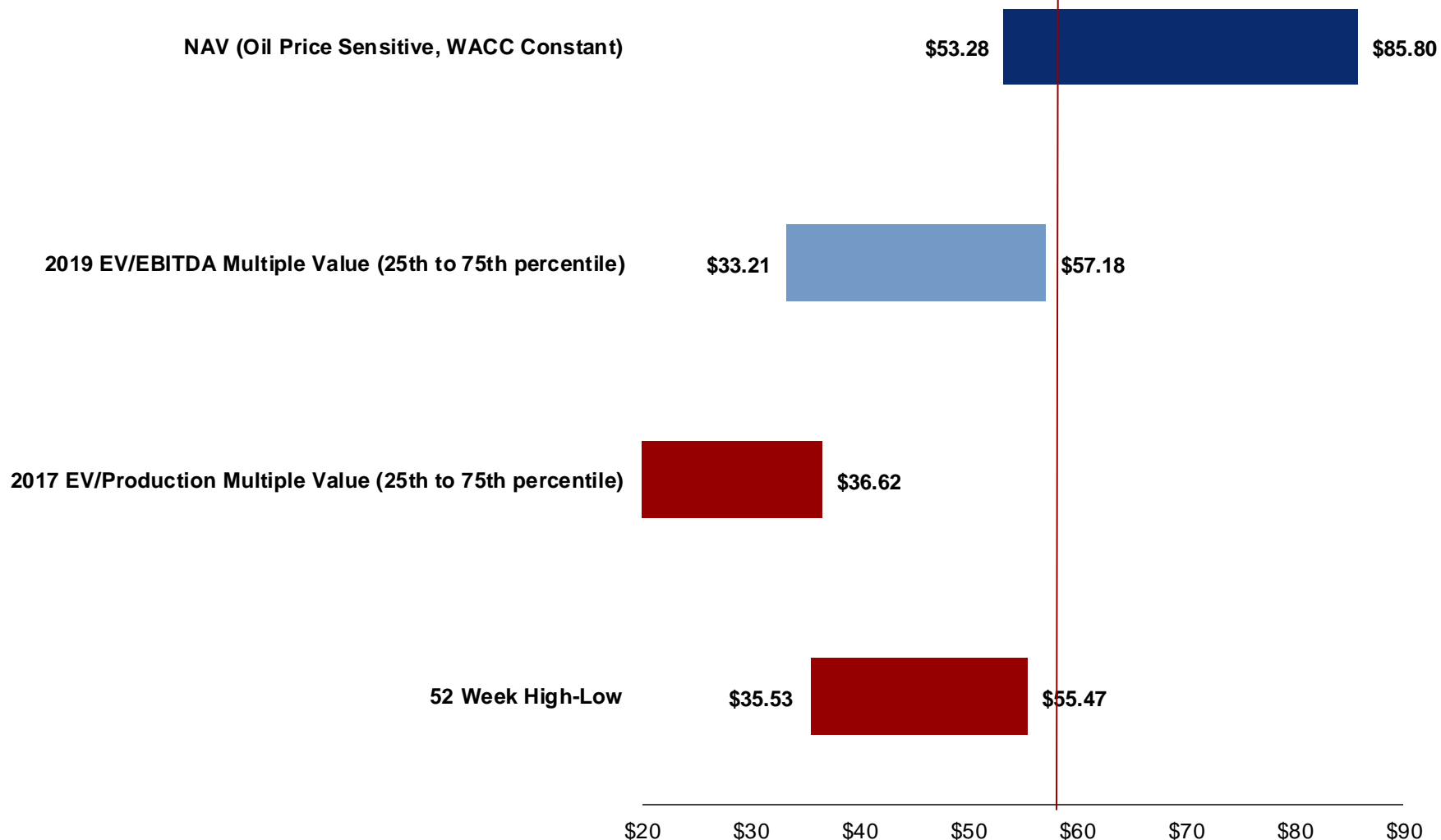
	Min	25th	Median	75th	Max
2018 EV/EBITDA	4.5 x	5.8 x	7.2 x	8.9 x	10.3 x
2018 EV/Production	42.1 x	49.9 x	65.6 x	93.2 x	98.3 x

Share Price Implied (25th to 75th)	High	Low
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2018 EV/EBITDA:	57.18	33.21
2018 EV/Production	36.62	13.84

Current Price: \$45.01

Weighted price target: \$59.03



Appendix

Football Field Details



Spread	Share Price	Weight	Low	High
\$19.9	52 Week High-Low	0.0%	\$35.53	\$55.47
\$22.8	2017 EV/Production Multiple Value (25th to 75th percentile)	10.0%	\$13.84	\$36.62
\$24.0	2019 EV/EBITDA Multiple Value (25th to 75th percentile)	25.0%	\$33.2	\$57.2
\$32.5	NAV (Oil Price Sensitive, WACC Constant)	65.0%	\$53.28	\$85.80
Weighted Fair Market Value		100.0%		
Price Target		\$59.03	\$ 44.32	\$ 73.73