



Sunoco LP (SUN)

Updated August 20th, 2024 by Jonathan Weber

Key Metrics

Current Price:	\$53	5 Year CAGR Estimate:	8.8%	Market Cap:	\$7.2B
Fair Value Price:	\$56	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	11/04/24 ¹
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.1%	Dividend Payment Date:	11/19/24 ²
Dividend Yield:	6.6%	5 Year Price Target	\$62	Years Of Dividend Growth:	2
Dividend Risk Score:	B	Retirement Suitability Score:	A	Rating:	Hold

Overview & Current Events

Sunoco is a master limited partnership that distributes a range of fuel products through its wholesale and retail business units. The wholesale unit purchases fuel products from refiners and sells those products to both its own and independently owned dealers. Sunoco was founded in 2012 and is headquartered in Dallas, Texas.

Sunoco reported its second quarter earnings results on August 7. The company reported that its revenues totaled \$6.2 billion during the quarter, which was 7% more than the revenues that Sunoco generated during the previous year's quarter. This was a better year-over-year performance compared to the previous quarter. Fuel prices are mostly a flow-through item for Sunoco, since Sunoco's costs increase as well when fuel prices rise. Revenue changes thus do not necessarily impact profits to a large degree, although margins vary from quarter to quarter.

Sunoco reported that its adjusted EBITDA was up 28% year over year, improving to \$320 million during the quarter. Sunoco's distributable cash flows totaled \$295 million during the quarter, which was higher compared to the previous year's quarter, and which equated to DCF of \$2.19 per share, which covered the dividend easily. For 2024, Sunoco is forecasting EBITDA of \$1.46 billion to \$1.52 billion to account for the acquisition of NuStar Energy.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
DCF/Share³	\$3.14	\$7.95	\$4.14	\$4.83	\$5.48	\$5.42	\$6.23	\$6.45	\$7.65	\$7.81	\$8.00	\$8.83
DPS	\$2.05	\$2.68	\$3.26	\$3.30	\$3.30	\$3.30	\$3.30	\$3.30	\$3.30	\$3.37	\$3.50	\$4.06
Shares⁴	24	50	52	98	83	83	83	84	84	85	135	140

Sunoco does not have a long history, as the company was created not too long ago. During that time frame its results varied significantly. Sunoco's abnormally high EBITDA during 2015 was an outlier caused by above-average fuel price spreads, for example. During 2017 Sunoco was able to grow its EBITDA-per-share massively, despite the issuance of a high amount of new shares that was used to finance acquisitions. Sunoco issues new shares regularly, but the partnership only does this when the transaction/acquisition is expected to be accretive to its DCF-per-share.

In Sunoco's industry, the company profits from significant scale and revenue consistency. In Texas, Sunoco is one of the largest independent fuel distributors, and Sunoco is also among the top distributors of Chevron, Exxon, and Valero-branded motor fuel in the rest of the United States. In the fuel wholesale industry, scale is important, as increased scale allows for higher margins and a better negotiating position with suppliers. Total gasoline sales declined relatively steadily since around 2000, but bottomed in 2015, and have risen over the last couple of years. In August 2021, Sunoco agreed to acquire eight refined products terminals from NuStar Energy for \$250 million, with these deals being expected to be accretive immediately after closing. Sunoco acquired an additional terminal from Cato, Inc. around the same time. In 2022, Sunoco closed the \$190 million acquisition of a processing and terminal facility from Gladieux Partners.

¹ Estimated date

² Estimated date

³ EBITDA/share between 2012 and 2015, DCF/share from 2016

⁴ In Millions

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
P/DCF	13.4	5.0	6.5	6.0	4.7	5.7	4.7	6.4	5.6	7.3	6.6	7.0
Avg. Yld.	5.1%	6.1%	9.8%	11.8%	12.7%	10.6%	11.4%	8.0%	7.7%	5.9%	6.6%	6.6%

Sunoco trades at an undemanding price-to-DCF multiple right now in absolute terms. Sunoco’s share price has pulled back from the \$60s where shares traded earlier this year. We do not believe that the valuations seen up to 2014 will come back, as Sunoco was a different, more convenience store-oriented company back then. Nevertheless, the company has proven it is able to grow at a solid pace, which is why we believe that some valuation upside is warranted.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	65.3%	33.7%	78.7%	68.3%	60.2%	60.9%	53.0%	51.1%	43.2%	43.1%	43.8%	45.9%

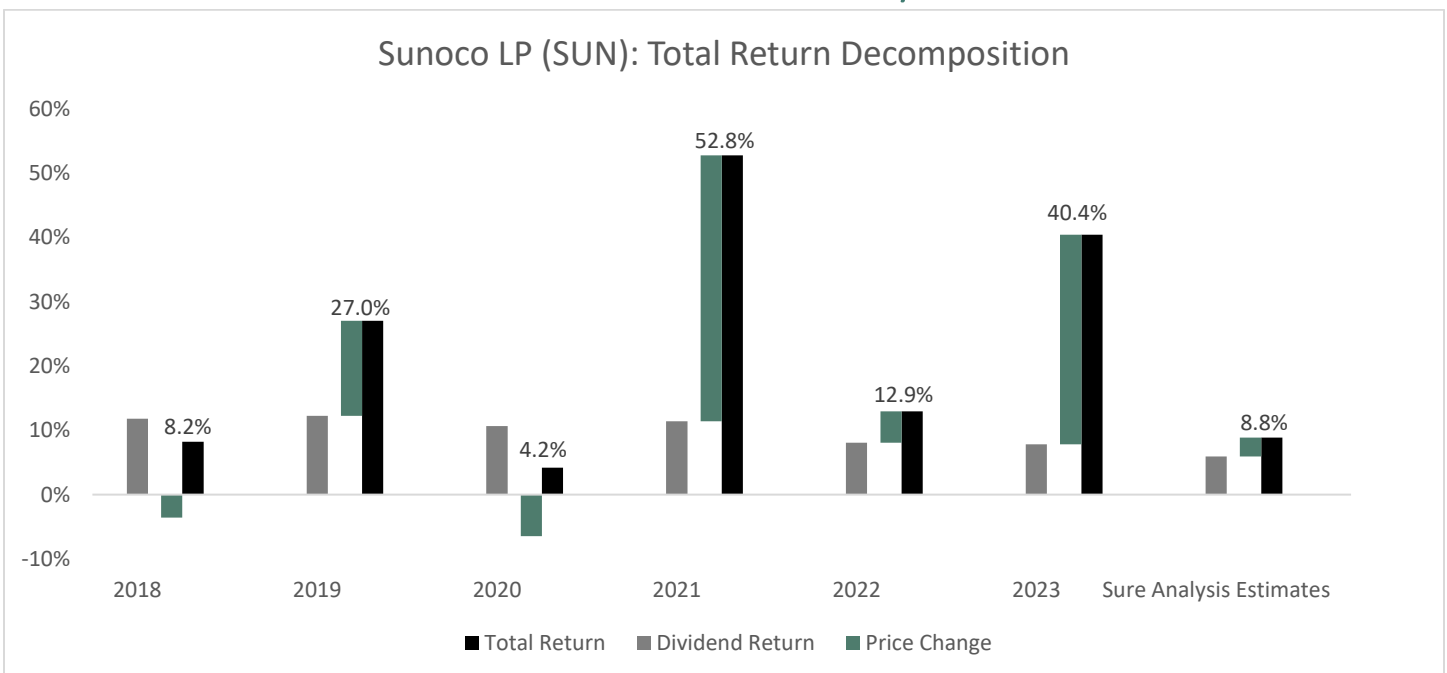
Sunoco’s dividend payout ratio has moved in a wide range throughout its existence, as its cash flow has seen steep ups and downs. The company has never cut its dividend, but dividend increases have been difficult to come by. The current yield of around 6.6% provides more than ample income. Sunoco has covered its dividend payout by a factor of 1.9 via distributable cash flows during the last 4 quarters, thus the dividend looks sustainable.

Sunoco is one of the largest fuel wholesalers in Texas, which provides competitive advantages in terms of size and scale. It is also a key distributor for Exxon and Chevron branded fuels, and the company has good relationships with these energy giants. Via tuck-in acquisitions, Sunoco could increase its scale advantage further over the coming years.

Final Thoughts & Recommendation

Sunoco is a fuel wholesale company with significant scale in its biggest market, Texas. Fuel wholesale is an industry that is not experiencing a lot of growth, but Sunoco’s business is throwing off a lot of cash. The company weathered the coronavirus crisis well, as distributable cash flows hit a new record high in all of 2020 to 2023. The company trades below our fair value estimate and promises solid but not great total returns, which is why we rate Sunoco a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue		12,430	9,986	11,723	16,994	16,596	10,710	17,596	25,729	23,068
Gross Profit		830	980	939	940	1,033	867	1,173	1,186	1,178
Gross Margin		6.7%	9.8%	8.0%	5.5%	6.2%	8.1%	6.7%	4.6%	5.1%
SG&A Exp.		205	236	221	213	197	173	168	183	194
Operating Profit		253	370	343	364	532	419	735	665	628
Operating Margin		2.0%	3.7%	2.9%	2.1%	3.2%	3.9%	4.2%	2.6%	2.7%
Net Profit		190	(406)	149	(207)	235	135	446	397	311
Net Margin		1.5%	-4.1%	1.3%	-1.2%	1.4%	1.3%	2.5%	1.5%	1.3%
Free Cash Flow		200	390	297	(142)	287	378	369	375	385
Income Tax		29	(72)	(306)	34	(17)	24	30	26	36

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	6,149	8,842	8,701	8,344	4,879	5,438	5,267	5,815	6,830	6,826
Cash & Equivalents	125	73	103	28	56	21	97	25	82	29
Accounts Receivable	193	161	361	285	299	337	239	428	755	703
Inventories	440	467	423	426	374	419	382	534	821	889
Goodwill & Int. Ass.	2,748	4,371	2,325	2,198	2,267	2,201	2,152	2,110	2,189	2,143
Total Liabilities	2,306	3,579	6,505	6,097	4,095	4,680	4,635	5,004	5,888	5,848
Accounts Payable	440	449	725	765	561	494	346	574	1,075	998
Long-Term Debt	1,106	1,958	4,514	4,290	2,985	3,071	3,112	3,255	3,571	3,580

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets		2.5%	-4.6%	1.7%	-3.1%	4.6%	2.5%	8.0%	6.3%	4.6%
Return on Equity		4.2%	-10.9%	6.7%	-13.7%	30.5%	19.4%	61.8%	45.3%	32.4%
Shares Out.		12.4%	-12.5%	3.4%	-5.7%	7.8%	4.4%	14.0%	11.6%	8.7%
Revenue/Share		24	50	52	98	83	83	83	84	84
FCF/Share		247.19	106.68	117.55	200.35	198.63	127.93	208.39	303.39	271.09

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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