Sunoco LP

NYSE:SUN

Analyst: Dominick Iachetta
Sector: Energy

BUY

Price Target: $50.98

Key Statistics as of 10/22/2015

Market Price:	$36.52
Industry:	Oil & Gas Storage/Transportation
Market Cap:	$2.67 billion
52-Week Range:	$29.50-54.82
Beta:	0.83

Thesis Points:

- Recent acquisitions will create long term value
- Organic growth will generate stable future cash flows
- Achieved increased performance during times of extreme volatility in commodity prices

Company Description:

Sunoco L.P. is a growth-oriented MLP, headquartered in Houston, Texas, that distributes Sunoco-branded fuel to convenience stores, independent dealers, commercial customers and distributors. It operates 850 convenience stores and retail fuel locations and interests are owned by Energy Transfer Equity L.P.

Thesis

I am recommending a BUY on SUN based on the following: accretive acquisitions which will lead to value creation, organic growth which will lead to sustainable future cash flows and strong recent performance amidst extreme volatility in the commodities market.

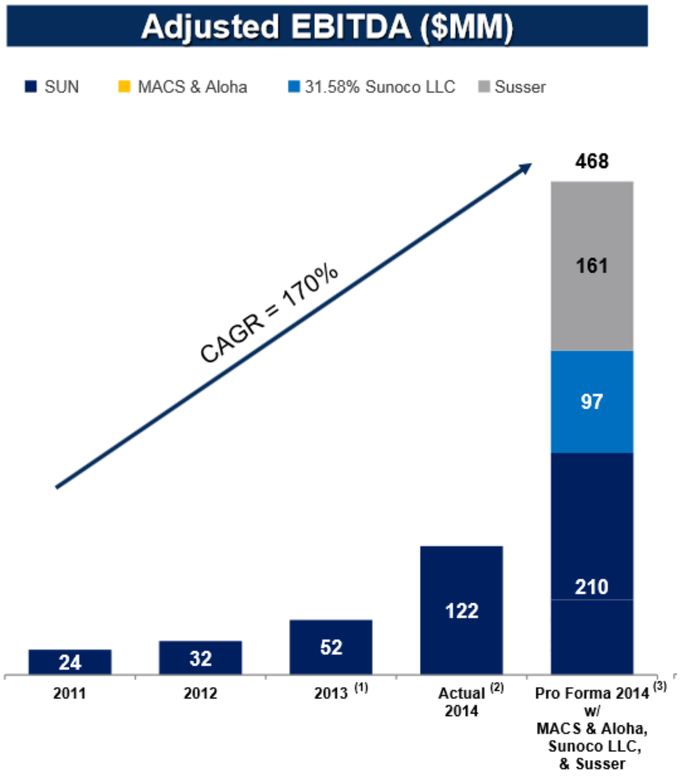
Accretive Acquisitions

SUN's ability to grow inorganically through acquisitions and drop downs will create value for the firm in the immediate and long term future. Since 2014 the company has gone through a complete transformation of its corporate organization. With its most recent acquisition of Susser Holdings Corporation, SUN has aligned itself for long term, sustainable growth.

Susser was acquired via a drop down from ETP on July 31, 2015 for nearly $1.9 billion dollars. Susser's operations consist of retail convenience stores, wholesale consignment sales and transportation in Texas, Oklahoma and New Mexico. The company currently operates 679 retail sites.

Susser's main asset are its Stripes branded convenient stores. Stripes' strong operational and strategic execution has resulted in the increase of same store sales growth for the last 26 consecutive years, which includes a 3.1% increase throughout the second quarter of this year. Much of this sales growth has been accredited to the Laredo Taco Company, which are strategically located at Stripes stores throughout the quickly growing Texas market.

Stripes also has a new build program in place that will be a source of significant growth for SUN. Stripes plans on building 40 new sites by the end of this year, almost all of which include a Laredo Taco Company restaurant. An additional 60 sites are scheduled to be finished by 2016. On average, the company will spend $4-5 million to get each store ready for operations, all of which will yield EBITDA at 6x to 8x its original cost. It will take each of these new stores about three years to reach full cash flow and will ultimately produce cash flows 2x to 3x greater than legacy stores. The acquisition of Susser, along with the company's previous acquisitions dating back to 2014, will be extremely accretive, especially in the year 2016 and beyond.



SUN's recent acquisition activity will be a trend that they continue into the foreseeable future. Management has placed a clear emphasis on inorganic growth and will continue to strategically acquire strong performing retail and wholesale targets in attractive markets. SUN's management team evaluates potential targets through a criteria which consists of geography, quality of operations and real estate and market margin history. The ability of the company to acquire value creating assets going forward gives SUN imminent upside potential.

Organic Growth

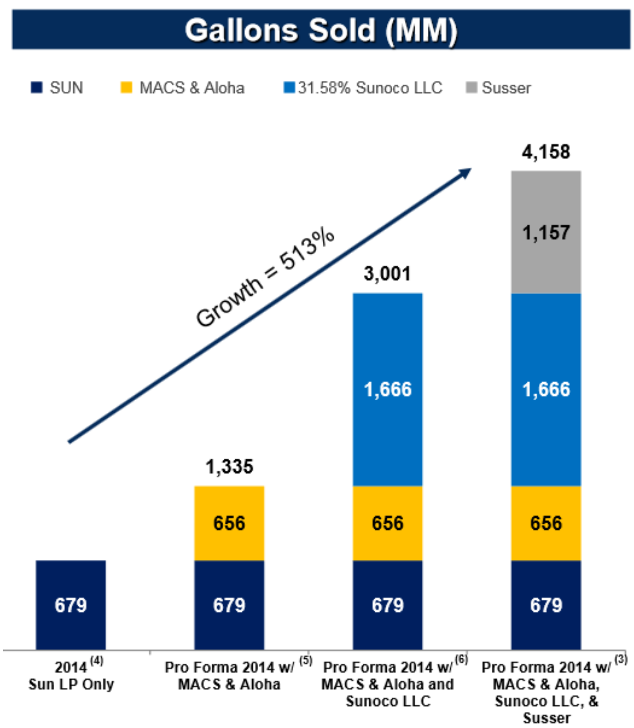
Along with inorganic growth through acquisitions and drop downs, SUN also has the ability to achieve organic growth from within the firm. SUN's new to industry sites will drive growth in the upcoming year. New to industry growth has allowed SUN to open more modern stores that appeal to their customer base. SUN also plans to offer a larger, more diverse selection of high-margin food options in these new stores, which will increase customer traffic. Along with expanding into new locations, SUN plans to increase merchandise and fuel volumes through their seasoned management team, best in class technology and extremely supportive general partner, ETP.

Recent Performance

Even throughout times of extreme volatility in the price of oil, SUN was still able to have a strong second quarter performance. Both adjusted EBITDA and cash flow attributable to partners had extreme increases in the second quarter of 2015 compared to the year prior.

Adjusted EBITDA increased by three times to over $58 million and cash flow attributable to partners increased 2.5 times to $39 million. The positive growth displayed in these two figures largely is a reflection of SUN's successful acquisitions.

SUN's total volume of gallons sold increased 39% from last year to 408 million gallons. Gross profit on these gallons was $.082 per gallon, which was an increase from last year of $0.049 per gallon.



SUN also had a very strong performance in their retail segment in both fuel and merchandise. Fuel same-store sales volume increased 1.3% - largely sparked by the success of newly acquired Mid-Atlantic Convenience Stores (MACS). MACS also experienced 7.1% increase in merchandise sales throughout the same time period.

Overall, SUN has maintained its growth trajectory even during this time of volatility. Estimated year end revenue for the company is $11.4 billion, more than double the revenue from 2014. Along with an increase in sales revenue, the firm's gross profit has also increased dramatically. Gross profit is estimated to rise to $814 million for 2015, up from $149 million in 2014. This performance has allowed SUN to increase its dividend payment to $0.69 per unit, which is a 33% growth from last year. SUN's ability to thrive in these market conditions, due mainly to the performance of its recent acquisitions, will set the company up for long term success.

Summary

In conclusion I am recommending a BUY on SUN based on their extreme upside potential in the near and long term future. SUN has positioned itself to grow through both strategic, value-creating acquisitions as well as by expanding their current business operations. Overall, SUN is underpriced in the market due to the fact that the positive effects of their accretive acquisitions has not been fully realized. This is a strong indicator for future success and now is the time for investors to take advantage of this opportunity.

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Sunoco LP	sun	Analyst	Current Price	Intrinsic Value	Target Value	Divident	1-y Return: 49.66%	BULLISH
		Dom Iachetta	$35.87	$34.30	$50.98	8%		

General Info	
Sector	Energy
Industry	Oil, Gas and Consumable Fuels
Last Guidance	August 6, 2015
Next earnings date	November 4, 2015
Market Data	
Enterprise value	$4,367.92
Market Capitalization	$634,769.99
Daily volume	39.74
Shares outstanding	74.33
Diluted shares outstanding	31.92
% shares held by institutions	60.71%
% shares held by insiders	0.63%
Short interest	3.13%
Days to cover short interest	6.45
52 week high	$54.82
52-week low	$29.50
5y Beta	0.46
6-month volatility	36.54%

Peers	Market Cap.
CST Brands, Inc.	$2,678.95
Sunoco Logistics Partners L.P.	$7,464.29
ONEOK Inc.	$7,672.25
ONEOK Partners, L.P.	$9,397.97
CrossAmerica Partners LP	$842.21
NGL Energy Partners LP	$2,018.91
Western Refining, Inc.	$4,052.74
Targa Resources Partners LP	$5,854.13
Williams Companies, Inc.	$29,847.14
Targa Resources Corp.	$3,308.67
Current Capital Structure	
Total debt/Common Equity (LTM)	-22.85
Cost of Borrowing (LTM)	4.10%
Estimated Cost of new Borrowing	5.12%
Altman's Z	NA
Estimated Debt Rating	BBB
Current levered Beta	0.41
LTM WACC	3.11%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Owens, Robert	Chief Executive Officer of Susser Petro	$0	$0	$2,327,476
McGrory, Clare	Chief Financial Officer of Sunoco GP LL	$0	$0	$0
McKinley, Leta	Principal Accounting Officer of Sunoco	$0	$0	$0
Grischow, Scott	Director of Investor Relations -Susser I	$0	$0	$0
Archer, Cynthia	Chief Marketing Officer of Sunoco GP	$0	$0	$0
Foster, Boyd	Executive Vice President of Business D	$0	$0	$0

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS	Standard Error of "Surprise"
Last Quarter	-7.54%	-5.21%	NM	1.16%
Last Quarter-1	-3.67%	-15.14%	-31.67%	8.13%
Last Quarter -2	1.16%	139.80%	105.26%	41.67%
Last Quarter -3	-7.43%	-17.93%	-46.00%	11.51%
Last Quarter -4	2.28%	-7.55%	-20.37%	6.56%
Standard error	2.1%	30.3%	34.9%	13.75%
Standard Error of Revenues prediction	2.1%			
Imputed Standard Error of Op. Cost pre	30.3%			
Imputed Standard Error of Op. Cost pre	17.2%			

Proforma Assumptions

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All base year ratios linearly converge towards the Sub-industry ratios over an explicit period of 10 years

General Assumptions	
Money market rate (as of today)	0.22%
Risk-Free rate (long term estimate)	2.88%
Annual increase (decrease) in interest rates	0.1%
Marginal Tax Rate	37.5%
Country Risk Premium	5.5%

Forecast Year	Revenue Growth Forecast	Revenue ($) Forecast
LTM		$10,519.30
FY2015	25.0%	$13,148.89
FY2016	24.3%	$16,345.03
FY2017	13.8%	$18,594.42
FY2018	-7.2%	$17,258.58
FY2019	-2.1%	$16,897.52
FY2020	0.5%	$16,974.23
FY2021	1.7%	$17,267.37
FY2022	2.4%	$17,675.48
FY2023	2.7%	$18,149.50
FY2024	2.8%	$18,665.10
Continuing Period	3.0%	$19,225.05

Items' Forecast Assumptions

	Base year (LTM)	onvergence period (Sub-industr	djustment per yea
Operating Cash/Rev.	0.00%	1.32%	0.1%
NWV/Rev.	2.39%	5.61%	0.3%
NPPE/Rev.	90.00%	50.00%	-4.0%
Dpr/NPPE	5.59%	6.40%	0.1%
NOPAT MARGIN	1.45%	14.62%	1.3%
Op. Exp./Rev.	97.02%	66.82%	-3.0%
SBC/Rev.	0.05%	0.40%	0.0%
Rent Exp./Rev.	0.03%	0.87%	0.1%
R&D/Rev.	0.00%	0.00%	0.0%
E&D/Rev.	0.00%	0.00%	0.0%
SG&A/Rev.	0.87%	5.73%	0.5%
ROIC	16%	4.69%	-1.14%
EV/Rev.	0.23x	2.68x	0.24x
EV/EBITA	10.30x	11.46x	0.12x
Debt/Equity	-2285%	338%	262.3%
Unlevered beta	-0.03	0.38	0.04
Cost of Borrowing	0%	5%	0.5%
Dividends/REV	2%	8%	0.6%

Other Assumptions

Tobin's Q	80%
Excess cash reinvestment	Money market rate
Other claims on the firm's asset	$0.00

Capitalization

100% of all rent expenses are capitalized and amortized 'straightline' over 10 years
100% of all R&D expenses are capitalized and amortized 'straightline' over 10 years
100% of all E&P expenses are capitalized and amortized 'straightline' over 10 years
SG&A expenses are not capitalized

Valuation Focus

DCF Valuation	100%
Relative valuation	0%
Distress Valuation	0%

Monte Carlo Simulation Assumptions

Revenue Growth deviation	Normal (0%, 1%)
Operating expense deviation	Normal (0%, 1%)
Continuing Period growth	Triangular (5.335%, 5.5%, 5.665%)
Country risk premium	Triangular (2.91%, 3%, 3.09%)
Intrinsic value σ(ε)	$0.09
1-year target price σ(ε)	$0.10

Valuation

Forecast Year	ROIC	WACC	Invested Capital	Enterprise Value	Claims on Assets and Dilution	Shares Outstanding	Price per Share
LTM	16.1%	3.1%	$1,652.29	NC	$1,735.11	74.33	$29.60
FY2015	28.2%	0.2%	$1,670.58	NC	$1,772.46	74.33	$45.52
FY2016	54.9%	1.0%	$1,585.97	NC	$1,443.63	74.33	$63.96
FY2017	90.1%	1.8%	$1,246.01	NC	$544.16	74.33	$77.77
FY2018	135.3%	2.5%	$638.38	NC	-$837.89	74.33	$100.15
FY2019	313.7%	3.1%	$117.75	NC	-$2,358.86	74.33	$129.95
FY2020	2009.6%	3.5%	-$391.29	NC	-$4,116.52	74.33	$170.34
FY2021		3.9%	-$916.42	NC	-$6,160.98	74.33	$226.31
FY2022		4.3%	-$1,468.71	NC	-$8,525.03	74.33	$306.68
FY2023		4.6%	-$2,052.96	NC	-$11,234.64	74.33	$428.82
FY2024		4.9%	-$2,671.62	NC	-$14,313.23	74.33	$454.34
Continuing Period	4.7%	5.0%	$59,979.39				

Monte Carlo Simulation Results

The 3σ(ε)-adjusted intrinsic value is $34.3; the 3σ(ε)-adjusted target price is $50.98; and the analysts' median target price is $49.85

Sensitivity Analysis

Revenue growth variations account for 95.9% of total variance
Risk premium's variations account for 2.5% of total variance
Operating expenses' variations account for 1.4% of total varian
Continuing period growth variations account for 0.2% of total