Suncor Energy First Quarter 2019 Financial Results Call

Thursday, 2nd May 2019

Operator: Good morning, ladies and gentlemen, and welcome to the Suncor Energy First Quarter 2019 Financial Results Call. (Operator Instructions) I would now like to turn the conference over to your host, Mr. Trevor Bell, Vice President, Investor Relations. Sir, you may begin.

Introduction

Trevor Bell

Vice President of Investor Relations, Suncor Energy Inc.

Thank you, operator, and good morning. Welcome to Suncor's first quarter earnings call. With me this morning are Steve Williams, our outgoing Chief Executive Officer; Mark Little, President and incoming Chief Executive Officer; and Alister Cowan, our Chief Financial Officer.

Please note that today's comments contain forward-looking information. Actual results may differ materially from the expected results because of various risk factors and assumptions that are described in our first quarter earnings release as well as our current Annual Information Form, and both of those are available on SEDAR, EDGAR, and our website, suncor.com.

Certain financial measures referred to in these comments are not prescribed by Canadian GAAP. For a description of these financial measures, please see our first quarter earnings release. Information on the impact of foreign exchange, FIFO accounting and share-based compensation on our results can also be found in our Q1 report to shareholders. Following the formal remarks, we'll open the call for questions first from members of the investment community and then, time permitting, to members of the media. I'll now hand it over to Steve Williams for his comments.

Opening Remarks

Steve Williams

Outgoing Chief Executive Officer, Suncor Energy Inc.

Good morning and thank you for joining us. We announced last November that I would be retiring at today's AGM, at which time Mark Little will become Suncor's new CEO. Since that announcement, we've focused on ensuring a smooth transition. Mark and the Suncor team have continued to drive tremendous results as is reflected again in this quarter. In just a few minutes, I'll hand over to Mark and Alister to talk about the very strong start to 2019.

You've heard me say many times that you should judge us on what we do not just what we say. During my time as CEO, we've increased the reliability of assets and reduced Oil Sands operating costs per barrel by over one third, and we did that through disciplined operational excellence.

At the same time, we've maintained our commitment to leadership in sustainability. We set ambitious greenhouse gas and social goals and continue to make great progress. We focused on strong capital discipline. We completed many counter-cyclical acquisitions including increasing our interest in Syncrude. Maintaining a strong balance sheet also allowed us to complete organic growth at Hebron while successfully executing, commissioning and ramping up the world-class mining asset, Fort Hills. Over the past 7 years, all of this was accomplished while increasing our dividend by approximately 20% per year and buying back nearly $10 billion worth of our stock.

Now I think we're among a handful of companies in industry able to generate reliable free cash flow through a wide range of business environments while consistently increasing shareholder returns. We've clearly demonstrated the resilience of our integrated business model as well as that commitment to returning value to our shareholders.

Looking forward, Suncor has a very compelling investor proposition. I'm excited about what's in store for Suncor and our stakeholders and I truly believe the best is yet to come especially now I'm such a large shareholder. I will now turn it over to Mark.

Operational Highlights

Mark Little

President, Incoming Chief Operating Officer, Suncor Energy Inc.

Thanks, Steve. And I appreciate you doubling down at this time. That's awesome. But I wanted to thank you for your strong leadership over the last 7 years. It's interesting; the support you've provided to me and the leadership team has been outstanding. Steve brought operational excellence and capital discipline to Suncor and that's just been huge for the company. I think all our shareholders understand that. And it's allowed us to thrive over a significant period of time. And so today we're in a great and enviable position within the industry and you've been a fabulous representative of the company both to our stakeholders, but to our governments and beyond. So thanks so much for your service and leadership.

I'll now turn over to our -- and turn my attention to the first quarter results. We generated $2.6 billion of funds from operations. This reinforces the value of our integrated model, as Steve just mentioned, and, in fact, in the last 2 quarters we've demonstrated the strength and resilience of our model through a range of markets and commodity cycles.

In the fourth quarter of 2018, there were low benchmark prices with wide heavy and light crude oil differentials, whereas in the first quarter of 2019, there were higher benchmark prices and narrow differentials. Both quarters, we were able to generate significant funds from operations.

And this substantial change in market conditions was primarily driven by the Alberta government's actions to curtail production. The net financial impact of this has been slightly positive to Suncor. However, we believe that for investment to return to the province, we must find a path forward for Albertans to get fair value for all of the production in the province. And to that end, we'll be working with the new Alberta government and the industry to achieve this goal of getting 100% of Alberta's crude oil production to market so that we can receive a fair global price.

Our results demonstrate the value Suncor will gain from rising benchmark oil price given that all 765,000 barrels a day of Q1 oil is oil production. We expect our production to grow 10% this year versus 2018 even with the Alberta mandatory production curtailments. However, the production caps did significantly impact our production volumes and unit operating costs in the quarter. But given this unusual environment in the first quarter, we took a number of key actions to improve the overall financial results of the company.

First, our overall focus was on maintaining the safe operation of our assets for our employees and to sustain asset integrity especially during such a cold and difficult winter.

Secondly, we maximized production to our highest value Oil Sands products namely synthetic crude oil and diesel even though the upgrading yield loss resulted in fewer barrels. Our entire focus was on value and not on production.

Third, on several occasions in the quarter we transferred production quotas between our Oil Sands assets to ensure safe operations and to further maximize value.

And finally, we redeployed resources to advance pre-stripping activities in the mines. Progressing this work at this time of the year is very efficient because the ground is frozen and the trucks can roll well and so we anticipate lower absolute operating costs later in the year to offset this.

So moving to our first quarter operating results, total Oil Sands production was 657,000 barrels per day, which represents a reduction of 84,000 barrels a day or so approximately; or just over 11% compared to Q4 of 2018. What's important to note is that 80% if our Q1 Oil Sands production was synthetic crude oil versus 65% in the fourth quarter of 2018. In fact, our production of synthetic crude oil, when you take Syncrude and combine it to base plant, is an all-time record for any quarter in the history of the company. The substantially lighter product mix in the first quarter reflects, as I discussed earlier, the strategic decision to keep upgraders running at full capacity during a period of extremely cold weather in order to operate safely and continue to focus on maximizing value.

First quarter absolute cash operating costs for all of our Oil Sands assets were in line or slightly higher than Q4 of 2018. This reflects the fixed cost nature of mining operations, higher commodity costs and the advancement of future mining activities, as I just mentioned. But on a unit basis then, all of our Oil Sands operating costs were, on average, $5 a barrel higher than Q4 2018 primarily as a result of lower production volumes combined with higher seasonal and commodity costs.

Moving to our E&P business, total Q1 production was 107,000 barrels per day. These results reflect the ongoing ramp-up of Hebron, which achieved production of 18,000 barrels per day net to Suncor during the quarter as well as first oil from the Oda project in offshore Norway. Operating costs were up slightly due to maintenance deferred from Q4 2018 given the severe November storms off the east coast of Canada.

Our refineries operated reliably during the quarter, achieving utilization of 96%, which included planned maintenance at Commerce City. We continue to see strong domestic demand for our refined products including strong distillate crack margins. Total refined product sales increased to 543,000 barrels per day, which reflects record Canadian wholesale volumes. Refining operating cost per barrel was $5.60 in the quarter as a result of higher commodity costs and the impact of planned maintenance activities.

Looking to the second quarter, we have several routine planned maintenance events in both the upstream and downstream segments of the business. The anticipated impact of these planned maintenance events has already been reflected in our 2019 guidance.

I also wanted to comment briefly on capital. And let me assure you that our strong focus on investing capital will not change. This year, we anticipate to spend $4.9 billion to $5.6 billion. And in Q1, our capital was down quite a bit and a lot of it is because of weather and so some of that will show up later in the year. Nevertheless, our focus remains on ensuring that every dollar spent is driving value for the organization. And some of the capital is expected to ramp up later in the year and a lot of that is some of these projects are held waiting for regulatory and government support before we proceed.

While remaining laser-focused on our operational performance, we're also advancing our plans to grow our cash flow each year between 2020 and 2023 so at the end of that period we're generating an additional $2 billion of sustainable incremental annual cash flow. This will be achieved by enhancing margins and reducing both sustaining capital and operating costs of our existing assets as well as some selective de-bottlenecks.

Today, we're moving forward with a number of opportunities, which will help us achieve approximately 75% of the $2 billion target. To help drive these initiatives, just recently we announced a change to establish a senior leadership team to ensure that this focus gets the day-to-day support, focus and leadership that's required. This will also include work to further identify the remaining opportunities to close the gap. The team will be led by a senior leader from our operations that will also be part of the executive leadership team.

So with that, I'll pass it along to Alister to provide some color on the first quarter financial results.

Financial Highlights

Alister Cowan

Chief Financial Officer, Suncor Energy Inc.

Thanks, Mark. So Steve, I'd like to also thank you, firstly, for persuading me to join Suncor 5 years ago. That was an awesome decision and thank you for that. Your leadership across the company and all that you've done for Suncor as well as being a champion for our industry on both the national and the global stage. Under your leadership, Suncor has certainly built a strong social and environmental track record and focus, and the investments that we have made ensure that we will reliably and responsibly extract value from our world-class long-life resource base for many decades to come.

So let me start the review of our financial results by highlighting a change in our Q1 reporting related to the new lease accounting rules under IFRS. The overall effect on our results was immaterial however you will notice an increase in our debt of approximately $1.8 billion.

This change has a minimal impact on our net debt to funds from operations ratio, but did add approximately 2% to total debt to capital ratio. So this change now aligns with how the rating agencies have historically calculated our debt metrics and we have adjusted our target debt to capital ratio accordingly.

With both the light and heavy crude oil differentials narrowing significantly from Q4 2018, our average Oil Sands operations price realization increased by $34 to $66 per barrel. The improvements in benchmark pricing and narrowing differentials were partially offset by reduced production volumes due to curtailment and higher seasonal mining and commodity costs, as Mark discussed. This resulted in Oil Sands segment funds from operations of $1.2 billion and operating earnings of $189 million.

We also saw a partial recovery of Brent prices during the first quarter. Our offshore assets were able to capture 100% of this improvement with an average price realization of $86 per barrel. The E&P segment also benefitted from the receipt of after-tax cash proceeds of $264 million related to insurance for our Libya assets resulting in funds from operations of $702 million and operating earnings of $492 million in that segment.

Downstream generated record funds from operations and operating earnings during the first quarter of $1.3 billion and $1 billion respectively, benefitting from a partial reversal of the FIFO loss recorded in Q4 as a result of the improving business environment. A net company-wide after-tax gain of $288 million associated with FIFO accounting and related inventory valuation adjustments was recorded in the first quarter.

Funds from operations were impacted, as usual in the quarter, from a seasonal perspective by the after-tax payment of approximately $200 million related to our long-term employee incentive program. And I'll just remind you that that occurs in the first quarter of every year.

Together, all this resulted in consolidated funds from operations of $2.6 billion and operating earnings of $1.2 billion. As we said, these results once again demonstrate the strength and resilience of our integrated business and its ability to generate significant cash flow and earnings in any market environment.

So with the cash we generated in the first quarter, we paid $662 million in dividends and that reflected the 17% increase in earnings last quarter. We repurchased approximately 12 million shares for $514 million and we spent $875 million on sustaining and growth projects. As Mark said, we expect to be within our existing capital guidance range for 2019 for capital. However to invest in profitable projects, we still require clarity on government policy and regulatory matters for some of these prior to sanctioning.

With our balance sheet already strong, we have no requirement to direct cash flow to debt repayment in preference to shareholder returns or growth. Our track record demonstrates that we will continue to target sustainably increasing shareholder returns in the current, medium and long term.

So before I pass it back to Trevor, Mark would like to make a brief comment.

Mark Little: Thanks, Alister. Just before we jump into the Q&A, I just wanted to extend our deep and heartfelt condolences to the family of the young man, the Ledcor employee that was fatally injured in a light vehicle accident on our Fort Hills site on Monday afternoon. Our value is that safety is above all else, and this is a tragedy and clearly a failure from a variety of different parts. And we just wanted to ensure that we extended our thoughts and prayers to the family, friends and co-workers at this time.

So, Trevor, over to you.

Q&A

Trevor Bell: Thank you, Mark, Alister and Steve. I will turn the call back to the operator to take questions, first from the analyst community and then, if time permits, from the media.

Operator: (Operator Instructions) Our first question comes from the line of Jon Morrison with CIBC Capital Markets.

Jon Morrison (CIBC Capital Markets): Can you provide any more color on your comments about developing step-out within the offshore business? And specifically, I'm really focused on, one, is this taking on incremental projects like Oda that came online? Or are you looking at perhaps taking smaller positions in some of the larger offshore projects that are out there? And secondarily, does the term step-out imply a new geographic footing in any way?

Mark Little: Gee, I'm glad you asked that question because it's really intended around - and in fact, I think if you look across the portfolio of all of our assets, one of the key focuses and one of the ways to drive huge value is to continue to get resource and put it behind existing assets and continue to drive value. So I would say in the vast majority of our assets our focus is around where is the resource that keeps sustaining or, in some cases, even growing production within the existing asset. And so you see that in the White Rose extension project. You see that with how we're optimizing Terra Nova.

It was not intended to talk at all or reference any other geographical areas that we'd be entering. We did do Oda and Fenja. The big opportunity we still have sitting in the portfolio is Rosebank, and I think everybody realizes that that's been pushed out with Equinor's entry into that ownership pool. And the focus that we have in working with Equinor is to figure out how to extract even more value. This is about value. It's not about time or production or reserves. So that's our singular focus on it.

Jon Morrison: That's helpful. Maybe if I could ask one more. There's obviously a lot of conversations around M&A in the oil sands right now given some of the things that are in the market. And you've always said that acquisitions kind of have to have that trifecta of; one, being strategic; two, providing cost synergy opportunities; and three, coming at the right price. If something is in the market that doesn't check the first 2 boxes, does price ever become enough of a reconciling item that you would ultimately look at proceeding because the accretion is that high? Or if it isn't strategic, it just really isn't on the table for you?

Mark Little: I think it would really -- we would have to factor in all of the implications and risks associated with the infrastructure issues and lack of market access and all those sorts of things into it. So maybe it would. But I think the question you're asking is one of the things that's become very prevalent in the last couple of days is; with Devon's comments, are we the ones that they're talking to? And I guess I would just assure you that were not.

Operator: Our next question comes from the line of Neil Mehta with Goldman Sachs.

Neil Mehta (Goldman Sachs): Steve, thanks for the partnership, your leadership, and congratulations on your retirement here. And Mark, congrats to you as well. I just wanted to get your thoughts, Mark, in terms of any early views in terms of your strategic vision in the new seat, early observations. Shall we expect more of the same or any radical change?

Mark Little: It's interesting that if you go back, I've actually been on this journey with Rick and Steve for the last 10 years. And I've been on the executive leadership that entire time. And I think the one thing that's very clear is Steve and I, we even have a similar background, but we're very, very aligned on how we drive value and move forward in this. And so the whole focus around operational excellence is huge. And we've been on this journey -- and I viewed that the merger gave us an opportunity to accelerate the pace of that journey.

One of the things we've literally just completed in the last month is we just pulled together our top 1,000 operational leaders across the company, Offshore, Onshore, Refining, Oil Sands, Infrastructure, brought them all together to talk about the importance of operational excellence and how we want to ensure that through this transition there's absolutely no confusion; that we remain on the journey, that we stay focused, and we really need to continue the journey of continuing to strengthen because this is a journey that never ends. And although we've come a long ways, we're far from perfect and we need to keep that journey moving forward.

The one -- the second thing is probably really around capital discipline. And that's been a key factor because I think we recognize that nobody wants to wait 50 years to find out how this story unfolds with all that's going on. And so we've created and shifted the company over the last many years, as everybody realizes, to a company of much more modest growth and higher returns to the shareholders. And so we're now into our 17th year of consecutive dividend increases. We've repositioned the company that way. And our focus is ensuring that we're very diligent on the projects that we're taking on and how we spend the capital for the organization.

And then maybe the third piece is, and this really isn't a difference between Steve and I; this is more of an evolution of the company. I think relative to technology, I kind of view we're in the cool initiative phase and we're working very hard to try and understand how do we leverage technology to accelerate our pace on operational excellence and to go after the $2 billion that we've committed to our shareholders to deliver by the time we get to 2023.

So we're talking about, relative to last year, we're talking about a 20% increase in our cash flow without significant major new projects coming on. Yes, we have some de-bottlenecks. Yes, we have some things happening. But the focus is to drive that cash flow. And so we've just assembled the senior leadership team and we're working to turn the leveraging of technology to empower the organization into a strategy for the organization and to continue to strengthen our performance and return -- generate more cash and return more cash to our shareholders.

Neil Mehta: That actually ties into the follow-up question, which is; what's the confidence level about the achievability of that $2 billion of incremental cash flow by 2023? And the context for that question is we talk to some investors who say, that Suncor has gone through a period of rapid growth, but as some of these big projects ultimately come online, the growth flattens out and so how can cash flow grow, which goes back to your point about ultimately driving margin expansion and cost savings and capital savings to get that $2 billion. But it's just harder to model and get visibility over. So anything you can do to help the market get confidence around that $2 billion I think would go a long way.

Mark Little: Yes. That's a great question, Neil, and I can appreciate the challenge with it. My personal confidence in it is 100%. And so hopefully that position is clear. And the joy of it, I think, for us is -- and it's exactly what you said. When you go through rapid growth, it's like are you maximizing value?

Like one of the reasons we entered Syncrude was because we felt like there's an enormous amount of value there that needs to get unlocked. And so as we put the interconnecting pipeline in, just as one example, between Suncor and Syncrude, we have an opportunity to actually strengthen the performance of both of the assets, drive down our operating costs and generate additional cash. So the faster you grow, actually the more opportunity there is to be able to optimize and drive additional cash flow.

Fort Hills is a great example. We just -- a massive amount of capital that we put on to the ground. We've done a bunch of testing associated. We think there's a de-bottleneck at 20,000 to 40,000 barrels a day. The curtailments are making it a little more challenging to sort out the de-bottlenecks and such associated with it because we can't run the asset at full utilization. But there is no question that as we deepen our understanding of the assets and continue to work with it we think we can unlock a lot of value there. The issue with it is we don't want to go -- it's not all about time because if we rush into it, we could fritter away a bunch of cash and we're just not willing to do it.

Neil Mehta: Yes, that's great. If I could sneak in one last question. Mark, what's the update up in Alberta now around curtailments? And how do you think this plays out from here?

Mark Little: Well it's a great question. With the new premier taking office and the change in government, we're looking to try and figure out; okay, so how does this story end and how does curtailment end? Because one thing that's pretty clear, and it's certainly true on our side and I would expect it's true from other organizations as well, is there is no sense spending money to generate additional production and drive further throughput if you can't produce the oil. The economics of that are zero. So the only way that we're going to be able to get people back to work and the electricians and the project folks and the engineers is to get 100% of our production flowing to market.

So one of the consequences is curtailment. There's been pros and cons to it and I think you've heard them all. Yes, prices are up. Yes, royalties are up. But we've also reduced takeaway capacity. And so now we're moving less oil out of the province than we were before. And so now the focus is, is how do we figure out how to increase takeaway capacity, get all of our production online and then we can continue to start pursuing now the new opportunities to keep investing in the province and growing the value of this resource not just for Alberta, but for Canadians as well.

Operator: Our next question is from Phil Gresh with JP Morgan.

Phil Gresh (JP Morgan): Congratulations, Steve and Mark. First question; just, Mark, your latest update on the interconnect pipeline and just in general where you're at with it and when you'd expect that to be a contributor to your $2 billion of CFO improvement.

Mark Little: Yes. The interconnecting pipeline is progressing as expected. We are expecting that by the time you get to the end of 2020 that project will be in service and then we'll have an opportunity to use it to optimize both of these assets.

For our base plant, it's much less of a change because we have the flexibility to take all the different bitumens that we produce into base plant and optimize our assets and blend production into the upgrader. For Syncrude, this is a huge change because they've had very little operating flexibility. That's why this is such a great opportunity. So that, along with their journey around operational excellence, we think we can generate a lot of value with it. But it's on track and looking good.

Phil Gresh: And I think you mentioned you've identified 75% of the potential CFO improvement. How much of that would be, in your mind, this project and ultimately what it would do for Syncrude?

Mark Little: Yes. It's interesting; I think we have about $200 million of the $2 billion tagged to incremental cash flow associated with this particular project. So it's about 10% of the portfolio.

And there is a number of things happening at Syncrude. One, as I think everybody realizes, we're on the same operational excellence journey at Syncrude as we are as a company. And just with all our deep expertise in mining and upgrading the oil sands material, that's one of the reasons we bought in because we have a lot of expertise that can help. So that journey is going well. In fact, in the first quarter, although this was record SCO production for the corporation, Syncrude was constrained because of the curtailments despite some of the allocations they received. So our production could have been higher and Syncrude could have performed even better. That's encouraging. It's a little frustrating that that curtailment has come in at a time they're firing on all cylinders. But the team is actually on quite a journey and we're optimistic about the progress they're making. This line that we're talking about will just make it better.

Phil Gresh: Sure. And if I could just maybe follow up on some of your OPEX commentary; the fact that it was higher in the first quarter and that you expect it to get better. Did you expect or did your guidance for the year factor in the curtailments and some of these, I guess, investments that you are making? It does imply a really significant improvement in the back half of the year so I just wanted to make sure I understood that.

Mark Little: Yes. Yes, we're a little bit below. I think we're around 15,000 barrels a day below the bottom end of our guidance in the first quarter. So we did factor the curtailment in. We expected that the curtailment would be 325,000 barrels a day for the first quarter and then 30% of that amount for the remaining portion of the year. A few months back, we tried to gain some clarity with the current situation and just trying to understand; well, how come we're not down to like 90,000 barrels a day in April? And the Alberta government clarified that the focus was to average 90,000 for the rest of the year, which is okay for us. We are doing maintenance in Q2 so it has a little less of an impact. And we also have that in Q3. So we actually felt like okay we're in pretty good shape there.

Now these curtailment levels are higher than we expected and part of the reason is because takeaway capacity from the province have declined. So the focus now is how do we figure out how to lift takeaway capacity and production so that we can generate even more value not just for the companies, but for the province and the citizens of Alberta. So that's really the focus.

I think our sense is, is okay, we believe that we will make some progress on that. In the last several months, the province, in April, May and June, they've adjusted the various numbers a little bit so they are on a slow progress of reducing curtailment. Our hope is, is we can accelerate that. We still, sitting here with what we know today, we think our guidance is good and we'll continue to stick with it. And we're working towards and that focus is to get that oil back on.

Phil Gresh: Sure, okay. And then my last question just on M&A. It's a bit of a follow-up here. Obviously, south of the border there's been a lot of activity going on recently. And with respect to that activity, there's been a lot of discussion as to what metrics matter to companies, specifically what financial metrics matter to companies. And so I was just curious how you would frame that, Mark, in terms of is it in earnings accretion, a cash flow accretion? Is there some other metrics that you care about most as you analyze opportunities?

Mark Little: Yes. Phil, I think in all of these -- these are actually, at least the ones we've done, a lot of these are complex transactions. And so we look at everything from what we think the actual asset value is, what kind of return we would get relative to the money we invest, would it be accretive on cash and earnings, all of these. But it's not a simple recipe. We would look at them. Every potential transaction seems to have different attributes. But obviously, we're not going to do something unless we think that it's going to add real value to the shareholder. And I think that's really the biggest driver for us although accretion is an important factor in all that as well.

Operator: Our next question is from Roger Read with Wells Fargo.

Roger Read (Wells Fargo): Congratulations to both of you -- Steve, a job very well done. And Mark, I know you're ready to roll with this. Digging in on the question front, I guess you mentioned CAPEX for the full year, you're going to hit that, but you also said there's some regulatory issues. I guess thinking about the CAPEX that is set and doesn't need anything but good weather versus maybe the CAPEX that still needs a regulatory approval, give us an idea of what potentially might be an underspend it seems like you're setting up for in 2019.

Mark Little: Yes. I mean clearly the way we've done this, Roger, is we've assumed that we will proceed with these projects once we get clarity on it. So we pushed out the timing of our projects and factored that into our capital. And so when we go through it, I think our view is, is; okay, we're definitely kind of mid to the lower end of our range at this stage of the game. Wait and see how it happens. But at this stage of the game, we're not expecting to underspend the range. Although if we decide not to proceed with some of these projects, that's a possibility and I think we just need to wait and see how that plays out.

Roger Read: What do you think the main factors are there? Is it curtailment-related? Or is it just something else that you'd be evaluating?

Mark Little: Well some of it would be curtailment. But like, just as an example, one of the projects that fits into this category is our co-gen project at base plant. And so co-gen, we're just trying to understand; okay, well what happens to the -- or what happens to the market and what direction are we going in? Because the last thing we want to do is go out and invest all of this capital and then find out the whole market concept gets changed and so now very efficient, very energy-efficient, low greenhouse gas emission electricity isn't valued in the province.

We fully believe, with the platforms and our discussions with the Alberta government, we can quickly get alignment on this because they're certainly interested in seeing investment go and improving the environment. But so we're just kind of waiting to sort that out. But the co-gen is actually the biggest one in there.

Roger Read: Okay, great. And then I know this would be a tough question to answer here just because of all the moving parts. But what would your thoughts on incremental crude by rail capacity for yourselves be or as something that you'd want to do maybe as an opportunity in the market? And I'm just thinking back to your comments to Phil's question about capacity. Takeaway capacity has actually declined, which is further complicating the whole curtailment volumes issue right now.

Mark Little: Yes. It's interesting, Roger, is that when we've gone on this journey, I think when we peaked we were moving about 350,000 barrels a day as an industry out of the province. That collapsed to, if I'm remembering the numbers right, about 120,000 barrels a day. We lost literally over 200,000 barrels a day of takeaway capacity. There are several opportunities now to increase rail capacity further. And I think a number of people, including the Alberta government, signed up for an increased capacity.

So I think that from our perspective we've always said for all of our production we have all of the takeaway capacity we need through the pipeline commitments we made and those sorts of things. So now it's really an industry issue and the issue is, is although we had the takeaway capacity, we had to shut in and open up capacity for others. It's just the way the process worked. So I think that on rail, rail capacity today is about 200,000 barrels a day out of the province so we're quite confident there is 150,000-plus barrels a day and I wouldn't be a bit surprised if there's not 250,000 barrels a day of takeaway capacity that we could put together to get all this oil back online.

Roger Read: Well, I'm sure we could find a use for it south of the border.

Mark Little: That's for certain.

Operator: Our next question is from Dennis Fong with Canaccord Genuity.

Dennis Fong (Canaccord): Again, just reiterating congratulations to Steve as well as to yourself, Mark, as well. The first question here is just talking towards your view of accelerating kind of value back to shareholders. Given your free cash flow profile this year, how are you looking at uses of that excess free cash flow beyond the outlined base CAPEX, dividend and the current share buyback program?

Alister Cowan: Okay, Dennis, I'm going to answer that one. And so I mean essentially we very clearly laid out what we're going to do with our cash flow; a substantial dividend increase of 17% for the year. We announced a $2 billion extension to our stock buyback and you've seen us execute on that and you've seen us do the renewal at the beginning of May for that as well. Beyond that, and Mark outlined where we're spending on capital, I think what you'll see us do is really focus more on probably putting the extra cash that we generate, depending on what the oil prices are, back on the balance sheet as we go forward into next year.

Dennis Fong: Okay, perfect. And is there a scenario where potentially later in this year if free cash flow either holds or increases that we could see maybe potential changes to the share buyback program as well? Or is that just kind of the thought process is to remain relatively conservative and keep that towards the balance sheet?

Alister Cowan: I think we've always said we're quite flexible. I mean it really depends on what the cash flow is. If we see a run-up in oil prices and a corresponding increase, given our exposure to those, in our cash flow, I think we would certainly be looking at whether we increase our stock buyback.

Dennis Fong: Okay, perfect. And then just a second question here. Just in terms of some of your past presentations, you've indicated that there could be about $1 billion to $1.5 billion of incremental positive cash flow between higher sales and lower per barrel OPEX with getting Syncrude to about a 90% consistent run time. How much of that is incorporated into your $2 billion plan of free cash flow growth into 2023? Or is this kind of incremental to your expectations? Or does that fall outside of your expectations of that free cash flow growth?

Alister Cowan: So Dennis, yes, just to be clear; getting to 90% and $30 OPEX in Syncrude is not the $2 billion target. But having access to the hydrotreating capacity and some flexibility around maintenance turnarounds between base plant and Syncrude, they are in the $2 billion. So I just want to mean there's a clear distinction there.

Operator: Our next question comes from the line of Greg Pardy with RBC Capital Markets.

Greg Pardy (RBC Capital Markets): Maybe just to add to the others, Steve, thanks very much for all your service and all the very best in your retirement. And indeed, congratulations to Mark. Just a couple of quick ones for me. And I guess part of it is, is coming back to that margin enhancement equation. Just curious as to how you're thinking about potential coker expansions at both Edmonton and Montreal.

Mark Little: Yes. It's interesting; we do have a number of opportunities around how we would integrate additional bitumen barrels into the platform. And so you know we're looking at the coker project in Montreal and we're also looking at opportunities in Edmonton. It's interesting in this environment that the question is, is; should we be -- one, can we get good returns for the shareholder? Two, should we be in the coke removal process or should we be in the hydrogen addition process? And we're working through that all right now across all of our refining circuits to try and understand where are the best opportunities in the entire portfolio. And I guess, in some ways, that could actually even push up into the upgrading side as well that we have up north. Although right now, we're expecting it's likely in Edmonton and Montreal are probably the highest probability opportunities.

Greg Pardy: Okay. And timing? It sounds like that's progressing, but you're nowhere near a decision.

Mark Little: Well, I would say we're probably at least 6 months to a year away from making a decision on it. And a lot of it is our long-term view between sweet and heavy prices. It's not so much about the immediate term. It's more about just the fundamentals of the markets going forward.

Greg Pardy: Okay, perfect. And then the last one is just related to the replication strategy. I mean we've -- obviously, we're in a very different market environment now. But how should we think about replication just in terms of the gating factors that would then lead to that decision?

Mark Little: Yes. We continue to work that diligently. I think part of the issue with it is will we get pipeline and market access. Our whole focus, and we've said it on numerous occasions, that we don't plan on proceeding with the project unless we have much greater certainty on market access than what we have today. We do not and will not spend the money on this to put it onto rail and ship it to market. We just don't think inefficient logistics are going to erode the economics. So that's one key thing.

And then if we go for it, the way we look at it right now is one project in replication would include 3 phases so on a gross basis it would be like 120,000 barrels a day of capacity, but we have joint venture partners in the first one so that's about 90,000 barrels a day to us. And so that would be the first decision. And our expectation is we would come to that, again it's probably 6 months to a year at the earliest that we would make a decision to proceed. And now we would say first oil shows up kind of in the -- well, in 2024 is when you'd start to see the impact of first -- or for the first phase.

Operator: Our next question is from Manav Gupta with Credit Suisse.

Manav Gupta (Credit Suisse): My question is a little bit more macro and IMO-related. I look at your Slide 17 of the corporate presentation and I understand it's not a new slide, but there's some very interesting facts over there where you indicate that the synthetic gives you about 40% distillate yield. WTI only gives you about 30% distillate yield. And I'm assuming a Permian or Eagle Ford would be much lower. So I'm just trying to understand when you say synthetic, is it synthetic light or is it synthetic heavy? And if it is synthetic heavy also which is giving you a little bit more of distillate yield, doesn't that mean that even in the IMO world, people will think twice before switching from synthetic heavy to a Permian or Eagle Ford because what you make up in HSFO you actually lose out on your distillate yield?

Mark Little: Okay. So we don't -- like when we have our distillate barrels, part of the issue is just because of the way the process works, we don't classify it really into like a synthetic heavy and a synthetic light. So when we produce our synthetic crudes, there's a few -- we actually have a sour synthetic and such. But just the nature of the crude that we have in Oil Sands is so that the distillate content in the barrel is actually 40%.

And so what you're saying is exactly right, is that we think that the synthetic barrel will become actually a premium crude because people will want the distillate cut in it versus very light barrels that have lower distillate. So the way you characterized it is the way we view it. And so when you look at it under IMO, we believe that distillate cracks will strengthen and, as a result of that, people will be able to be willing to pay a little bit more for the synthetic barrel to be able to get those distillate molecules.

Manav Gupta: Thanks, guys. And a very quick follow-up. There was $1 billion in working capital build. I'm assuming it's because you are digging a heavier turnaround in 2Q and that should reverse very quickly as the year progresses.

Alister Cowan: No, actually, it's very simple. Crude prices went up substantially from the end of Q4. So applying that to our sales and receivables and inventory balances is actually what drives the working capital increase.

Operator: Our next question is from Benny Wong with Morgan Stanley.

Benny Wong (Morgan Stanley): Just want to echo the congrats to Steve and Mark. My first question is actually for Steve. Obviously, as you've seen the Canadian oil and gas space go through many cycles, I would love to get your perspective on where the industry is headed and what challenges it faces. It seems to me it's a little bit more than just pipeline capacity. And from your perspective, how prepared do you think the industry is geared to take on those?

Steve Williams: Yes. I mean let me start -- I'll give you a very brief answer. But let me start at the Canadian level and then I'll move globally from there. I mean I am very optimistic around Canada. I think, in a sense, we have reached a low point where a number of things have been put into question. But if I look at the world supply-demand, if I look at the responsible and sustainable development within Canada, I'm very optimistic about the future.

We're climate change believers. We believe that a transition to a more managed and lower-carbon world is an important piece of that. But in every one of those scenarios, I see demand for oil remaining very firm and probably going up, and I see the demand within that for Canadian oil going up even higher. Because when you look at the alternatives, whether it's South America, Russia, Middle East, Africa, most customers want to be able to depend on a high-quality, reliable supply.

So I think it takes a little bit of time for us to work out some of our issues. I think curtailment, I see it as a very short-term thing and I think coming to an end. I see the pipeline issues steadily being resolved. We're the nearest we've been to all 3 of these current pipelines going in and I think that's a 2-, 3-year issue and then we will shift to the next generation of pipeline after that. So I'm fairly bullish. I think there's a great outlook for Canada.

Benny Wong: That's terrific. My follow-up is just a follow-up on the IMO 2020 Slide there, showing the positive impact to Suncor. Just wondering if you guys are doing anything within your system, making adjustments or maybe trying new fuel blends to maybe better capture that opportunity.

Mark Little: One of the things we're always doing in this is just trying to understand how we can blend. And so in some cases, the flexibility we have in our Oil Sands business is we can actually custom blend for some of our customers, which we do. So we have some blends that only go to specific customers and are custom blended to their requirements for volume and those sorts of things.

We've also realized that this is an opportunity for our own refineries so we've been doing that for a period of time. Clearly, as IMO comes in, we would expect that some of that custom blending will get modified and adjusted based on the needs of the customer, which will certainly change under IMO. So it's a dimension of what we're doing and we expect that to continue.

Operator: Our next question is from Joe Gemino with Morningstar.

Joe Gemino (Morningstar): Congrats on the great quarter and, Steve, congrats in your future endeavors. The question I have is on Enbridge and its proposed priority access. Have you put any thought as to how something like this may benefit Suncor or could benefit any of your competitors?

Mark Little: Yes, we have. This is an area that a lot of folks are working on trying to understand what's the right positioning. Clearly, we need feed for our Sarnia refinery and for the Montreal refinery and such and also look for access to the markets through the system. So it's an area that we're working on trying to understand not just our position, also the position of what our competitors might be and also the implications on the Alberta industry and just trying to make sure that we're well positioned as this discussion begins.

Operator: I'm not showing any further questions so I'll now turn the call back over to Trevor Bell for closing remarks.

Trevor Bell: Thanks, everyone, for joining us today. Our IR team will be around all day if you have any follow-up questions. Otherwise, I wish everyone a great day and thank you.

Operator: Ladies and gentlemen, this does conclude the program. You may now disconnect. Everyone, have a great day.