



# Independent Stock Idea

July 27, 2011

rating: buy  
s&p 500: 1332

## Canadian Oil Sands Limited (COSWF) U.S. Dollar Alternative

<i>Symbol</i>	COSWF	<i>Ebitda Next Twelve Months ending 6/30/12 (US\$mm)</i>	2,540
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	-5
<i>Price (US\$/share)</i>	29.30	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	7/26/11	<i>Adjusted Reserves/Production NTM</i>	26.4
<i>Shares (mm)</i>	485	<i>EV/Ebitda</i>	6.2
<i>Market Capitalization (US\$mm)</i>	14,200	<i>PV/Ebitda</i>	10.5
<i>Debt (US\$mm)</i>	1,500	<i>Probable Reserves (%)</i>	50
<i>Enterprise Value (EV) (US\$mm)</i>	15,700	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	58.19
<i>Present Value (PV) (US\$mm)</i>	26,700	<i>Present Value Proven and Probable Reserves(US\$/boe)</i>	16.80
<i>Net Present Value (US\$/share)</i>	52	<i>Ebitda Margin NTM (%)</i>	55
<i>Debt/Present Value</i>	0.06	<i>Earnings Next Twelve Months (US\$/share)</i>	2.96
<i>McDep Ratio - EV/PV</i>	0.59	<i>Price/Earnings Next Twelve Months</i>	10
<i>Dividend Yield (%/year)</i>	4.3	<i>Dividend Next Twelve Months (US\$/share)</i>	1.27
Note: Estimated cash flow and earnings tied to one-year futures prices for oil.			
Estimated present value presumes a long-term price for oil of US\$100 a barrel and natural gas, \$8 a million btu.			
For historical analysis of COS since 2002 see <a href="http://www.mcdep.com/4cos.htm">www.mcdep.com/4cos.htm</a>			

### Summary and Recommendation

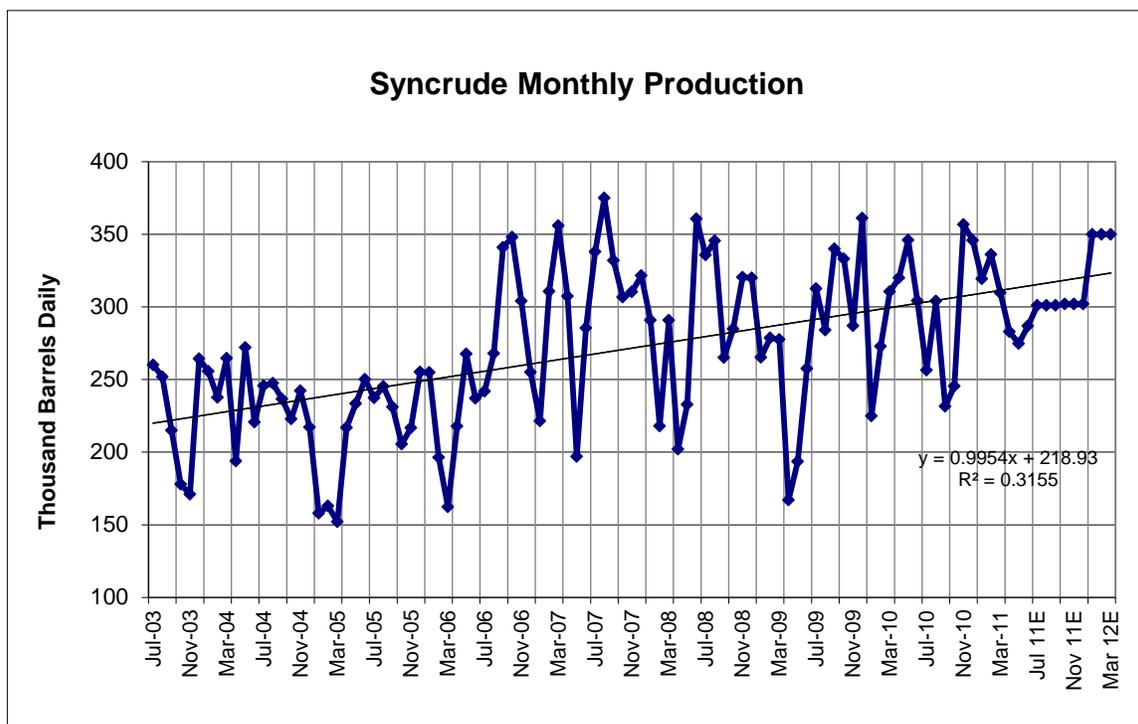
Buy-recommended **Canadian Oil Sands Limited (COSWF)** offers the highest long-term investment return measured by McDep Ratio among North American oil producers. We believe new commitments are timely at lower stock price than three months ago while the outlook appears favorable for oil volume and price. Production of synthetic crude oil by the Syncrude oil sands mine and upgrader, the company's sole facility, dipped in the second quarter. Yet, the trend continues upward toward consistent operation at full capacity (see chart [Syncrude Monthly Production](#) on page 2). Production from other Alberta upgraders was down more in the latest quarter thereby contributing to a higher price for the environmentally advantaged Syncrude as reported on July 26 (see table [Next Twelve Months Operating and Financial Estimates](#) on page 3). As a result, the outlook remains strong for next twelve months cash flow before reinvestment of C\$4.84 a share, more than 4 times the indicated dividend of \$C1.20 (see table [NTM Dividend](#) on page 2). Considering that oil sands production can last almost indefinitely, a constant quarterly net cash return of US\$0.96 would justify estimated Net Present Value (NPV) of US\$52 a share assuming an unlevered annual return of 7%. Projected cash flow at capacity operations in the first half of 2012 would exceed that by more than enough to cover the maintenance capital necessary for ongoing operations and justify NPV. At stock price of US\$29.30, the indicated equity return assuming 3% annual inflation would be about 15% a year. That looks attractive to us at a time of low confidence in the U.S. dollar.

Kurt H. Wulff, CFA



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<b>Canadian Oil Sands Ltd.</b>									
<b>Next Twelve Months Dividend Estimates</b>									
(Canadian Dollars)									
									<i>Next Twelve Months</i>
	<i>Q2</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>6/30/12</i>
	<i>6/30/10</i>	<i>3/31/11</i>	<i>6/30/11</i>	<i>9/30/11</i>	<i>12/31/11</i>	<i>2011E</i>	<i>3/31/12</i>	<i>6/30/12</i>	<i>6/30/12</i>
<b>Ebitda</b>	410	543	589	522	533	<b>2,188</b>	659	682	<b>2,397</b>
Interest	22	14	15	5	5	<b>39</b>	5	3	<b>18</b>
Current Income Tax				-	10	<b>10</b>	10	10	<b>30</b>
<b>Cash Flow Before Reinvestment</b>	388	529	574	517	518	<b>2,139</b>	644	669	<b>2,349</b>
Non-Production Expense	19	33	25	40	40	<b>138</b>	40	38	<b>158</b>
Capital Expenditures	114	109	140	180	220	<b>649</b>	232	250	<b>882</b>
<b>Free Cash Flow</b>	255	387	409	297	258	<b>1,352</b>	372	381	<b>1,309</b>
<b>Per Share</b>									
Cash Flow Before Reinvestment	0.80	1.09	1.18	1.07	1.07	<b>4.41</b>	1.33	1.38	<b>4.84</b>
Free Cash Flow	0.53	0.80	0.84	0.61	0.53	<b>2.79</b>	0.77	0.79	<b>2.70</b>
Dividend	0.50	0.20	0.30	0.30	0.30	<b>1.10</b>	0.30	0.30	<b>1.20</b>



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Canadian Oil Sands Ltd.									
Next Twelve Months Operating and Financial Estimates									
(Canadian Dollars)									
									<i>Next</i>
	<i>Q2</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Months</i>
	<i>6/30/10</i>	<i>3/31/11</i>	<i>6/30/11</i>	<i>9/30/11</i>	<i>12/31/11</i>	<i>2011E</i>	<i>3/31/12</i>	<i>6/30/12</i>	<i>6/30/12</i>
<b>Volume</b>									
Syncrude (mmb)	29.5	28.9	25.6	27.7	27.8	<b>110.0</b>	31.5	31.9	<b>118.8</b>
Syncrude (mbd)	324	321	281	301	302	<b>301</b>	350	350	<b>326</b>
Company share (%)	36.6	37.6	36.6	36.7	36.7	<b>36.9</b>	36.7	36.7	<b>36.7</b>
Company Oil (mmb)	10.79	10.88	9.37	10.17	10.21	<b>40.6</b>	11.57	11.70	<b>43.7</b>
Company Oil (mbd)	118.6	120.9	102.9	110.6	111.0	<b>111.3</b>	128.6	128.6	<b>119.6</b>
<b>Price</b>									
WTI Cushing (US\$/bbl)	77.85	94.10	102.55	98.67	99.96	<b>98.82</b>	101.19	102.16	<b>100.50</b>
Currency (US\$/C\$)	0.97	1.01	1.03	1.06	1.06	<b>1.04</b>	1.06	1.06	<b>1.06</b>
WTI Cushing (C\$/bbl)	80.05	92.75	99.21	93.08	94.29	<b>94.83</b>	95.46	96.37	<b>94.80</b>
Differential	(1.98)	0.29	11.79	7.00	6.00	<b>5.93</b>	4.00	4.00	<b>5.24</b>
Company Oil Price (C\$/bbl)	78.07	93.04	111.00	100.08	100.29	<b>100.76</b>	99.46	100.37	<b>100.04</b>
Henry Hub Nat Gas (US\$/mm)	4.09	4.11	4.32	4.36	4.49	<b>4.32</b>	4.73	4.64	<b>4.55</b>
Henry Hub Nat Gas (C\$/mmb)	4.21	4.05	4.18	4.11	4.24	<b>4.15</b>	4.46	4.38	<b>4.30</b>
AECO Natural Gas (C\$/GJ)	3.68	3.59	3.62	3.56	3.67	<b>3.61</b>	3.87	3.80	<b>3.72</b>
<b>Revenue (C\$mm)</b>	<b>842</b>	<b>1,012</b>	<b>1,040</b>	<b>1,018</b>	<b>1,024</b>	<b>4,094</b>	<b>1,151</b>	<b>1,174</b>	<b>4,367</b>
<b>Expense (C\$mm)</b>									
Production	294	333	297	370	370	<b>1,370</b>	331	331	<b>1,403</b>
Purchased Energy	42	54	50	50	50	<b>204</b>	51	51	<b>202</b>
Crown Royalties	85	71	98	67	62	<b>298</b>	91	92	<b>312</b>
Insurance	3	2	2	3	3	<b>10</b>	3	3	<b>11</b>
Administration	8	9	4	6	6	<b>25</b>	7	6	<b>25</b>
Reclamation Spending	-	-	-	-	-	<b>-</b>	10	10	<b>19</b>
Total	432	469	451	496	491	<b>1,907</b>	492	492	<b>1,971</b>
<b>Ebitda</b>	<b>410</b>	<b>543</b>	<b>589</b>	<b>522</b>	<b>533</b>	<b>2,188</b>	<b>659</b>	<b>682</b>	<b>2,397</b>
Deprec., Deplet., & Amort.	94	95	97	97	97	<b>386</b>	97	97	<b>388</b>
Non-Production	19	33	25	40	40	<b>138</b>	40	38	<b>158</b>
Exchange on U.S. Debt	38	(22)	(8)						
Other	(0)	(4)	(4)						
<b>Ebit</b>	<b>259</b>	<b>442</b>	<b>478</b>	<b>385</b>	<b>396</b>	<b>1,701</b>	<b>522</b>	<b>547</b>	<b>1,851</b>
Interest	22	14	15	5	5	<b>39</b>	5	3	<b>18</b>
<b>Ebt</b>		<b>428</b>	<b>463</b>	<b>380</b>	<b>391</b>	<b>1,662</b>	<b>517</b>	<b>544</b>	<b>1,833</b>
Income Tax		103	119	99	102	<b>423</b>	134	142	<b>476</b>
<b>Net Income (C\$mm)</b>	<b>237</b>	<b>325</b>	<b>344</b>	<b>282</b>	<b>289</b>	<b>1,240</b>	<b>382</b>	<b>403</b>	<b>1,356</b>
<b>Shares (millions)</b>	<b>484</b>	<b>485</b>	<b>485</b>	<b>485</b>	<b>485</b>	<b>485</b>	<b>485</b>	<b>485</b>	<b>485</b>
Earnings per share (C\$)	0.49	0.67	0.71	0.58	0.60	<b>2.56</b>	0.79	0.83	<b>2.80</b>
Ebitda Margin (E&P)	49%	54%	57%	51%	52%	<b>53%</b>	57%	58%	<b>55%</b>
Tax Rate		24%	26%	26%	26%		26%	26%	<b>26%</b>



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