



Independent Stock Idea

May 1, 2012

rating: contrarian buy, s&p 500: 1398

Canadian Oil Sands Limited (COSWF) Dividend Raised 17%

<i>Symbol</i>	COSWF	<i>Ebitda Next Twelve Months ending 3/31/13 (US\$m)</i>	2,300
<i>Rating</i>	Contrarian Buy	<i>North American Natural Gas/Ebitda (%)</i>	-4
<i>Price (US\$/share)</i>	22.09	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	4/30/12	<i>Adjusted Reserves/Production NTM</i>	21.1
<i>Shares (mm)</i>	485	<i>EV/Ebitda</i>	5.5
<i>Market Capitalization (US\$m)</i>	10,700	<i>PV/Ebitda</i>	11.8
<i>Debt (US\$m)</i>	2,000	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$m)</i>	12,700	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	64.04
<i>Present Value (PV) (US\$m)</i>	27,200	<i>Present Value Proven Reserves(US\$/boe)</i>	35.84
<i>Net Present Value (US\$/share)</i>	52	<i>Ebitda Margin NTM (%)</i>	58
<i>Debt/Present Value</i>	0.07	<i>Earnings Next Twelve Months (US\$/share)</i>	2.67
<i>McDep Ratio - EV/PV</i>	0.47	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	6.4	<i>Dividend Next Twelve Months (US\$/share)</i>	1.42
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 www.mcdep.com/4cos.htm			

Summary and Recommendation

Contrarian Buy **Canadian Oil Sands Limited (COSWF)** is one of our favorite stocks, our second largest personal holding after buy-recommended **ExxonMobil (XOM)** -- which we regard partly as a bond substitute. As we see it there are two problems holding back the stock. The first is a timid income strategy. Last night's dividend increase helps reduce that concern. The second is the inability to date of Canadians and the global oil industry to operate oil sands upgraders in Alberta at world standards of reliability. We are willing to look around one more corner to see if COSWF's Syncrude plant can achieve our volume projections for the next nine months after the current second quarter. If the reliability of the past five years is the best that can be achieved, we would reduce our estimated Present Value by perhaps 20% and today's low, low McDep Ratio of 0.47 would adjust to a merely low 0.59. In other words, stock price presumes no improvement in operations. We don't believe the politically-motivated environmental objections to Canadian oil sands are valid, though we always favor responsible environmental stewardship which we believe the industry leaders are living up to. Nor do we believe that President Obama's blocking of the Keystone Pipeline will have a lasting impact in bottling up rising U.S. and Canadian oil production. Finally, returning to the income strategy, we remember that the initial reason to create the predecessor entities of COSWF was to deliver more income to shareholders than available in conventional corporate entities. Management could do more to fulfill its reason for being. For example, the income appeal might be more widely appreciated if the securities traded more freely in the U.S. without a five letter symbol and were cleared to be marketed under state securities regulations. We may not know the answers, but we see opportunity in low stock price.

Kurt H. Wulff, CFA



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Canadian Oil Sands Ltd.									
Next Twelve Months Operating and Financial Estimates									
(Canadian Dollars)									
									<i>Next Twelve Months</i>
	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Year</i>	<i>Q1E</i>	<i>Months</i>
	<i>3/31/11</i>	<i>12/31/11</i>	<i>2011</i>	<i>3/31/12</i>	<i>6/30/12</i>	<i>9/30/12</i>	<i>2012E</i>	<i>3/31/13</i>	<i>3/31/13</i>
Volume									
Syncrude (mmb)	28.9	23.2	105.2	26.8	21.2	31.0	110.0	31.5	114.7
Syncrude (mmbd)	321	252	288	295	233	337	301	350	314
Days	90	92	365	91	91	92	366	90	365
Company share (%)	37.6	36.2	36.8	36.7	36.7	36.7	36.7	36.7	36.7
Company Oil (mmb)	10.88	8.40	38.7	9.84	7.79	11.39	40.4	11.57	42.1
Company Oil (mmbd)	120.9	91.3	106.0	108.1	85.6	123.8	110.4	128.6	115.5
Price									
WTI Cushing (US\$/bbl)	94.10	94.06	95.12	102.93	104.32	105.45	104.62	105.77	105.33
Currency (US\$/C\$)	1.01	0.98	1.01	1.00	1.01	1.01	1.01	1.01	1.01
WTI Cushing (C\$/bbl)	92.75	96.20	94.03	103.04	103.02	104.13	103.67	104.45	104.02
Differential	0.29	8.58	7.17	(5.97)	-	-	(2.78)	-	(1.26)
Company Oil Price (C\$/bbl)	93.04	104.78	101.19	97.07	103.02	104.13	100.89	104.45	102.75
Henry Hub Nat Gas (US\$/mm)	4.11	3.55	4.04	2.73	2.25	2.46	2.58	3.34	2.73
Henry Hub Nat Gas (C\$/mmb)	4.05	3.63	4.00	2.73	2.22	2.42	2.56	3.29	2.70
AECO Natural Gas (C\$/GJ)	3.59	3.19	3.48	2.29	1.86	2.03	2.14	2.76	2.26
Revenue (C\$mm)									
Sales	1,012	880	3,916	955	803	1,186	4,076	1,209	4,330
Crown Royalties	71	73	307	96	36	132	381	137	423
Net Revenue	941	807	3,609	859	767	1,055	3,695	1,072	3,908
Operating Expense (C\$mm)									
Production	333	348	1,301	285	282	385	1,314	375	1,404
Purchased Energy	54	45	200	36	29	46	166	64	193
Operating Income (C\$mm)	554	414	2,108	538	456	623	2,215	633	2,310
Administration and Insurance	11	10	33	8	9	9	34	9	35
Ebitda	543	404	2,075	530	447	614	2,181	624	2,275
Non-Production Expense	33	27	113	24	37	37	135	37	148
Deprec., Deplet., & Amort.	95	96	381	95	95	95	380	95	380
Exchange on U.S. Debt	(22)	(23)	22	(16)					
Other	(4)	(5)	(18)	6					
Ebit	442	309	1,577	421	315	482	1,676	492	1,748
Interest	14	6	46	1	9	9	28	9	36
Ebt	428	303	1,531	420	306	473	1,648	483	1,712
Income Tax	103	70	387	100	77	119	409	122	431
Net Income (C\$mm)	325	233	1,144	320	229	354	1,239	362	1,281
Shares (millions)	485	485	485	485	485	485	485	485	485
Earnings per share (C\$)	0.67	0.48	2.36	0.66	0.47	0.73	2.55	0.75	2.64
Ebitda Margin (E&P)	58%	50%	57%	62%	58%	58%	59%	58%	58%
Tax Rate	24%	23%	25%	24%	25%	25%	25%	25%	25%
Cash Flow (C\$mm)									
Net Income	325	233	1,144	320	229	354	1,239	362	1,281
Deprec., Deplet., & Amort.	95	96	381	95	95	95	380	95	380
Exchange on U.S. Debt	(22)	(23)	22	(16)					
Deferred tax and other	82	58	353	57	62	95	304	97	345
Cash Flow from Operations	480	364	1,901	456	385	544	1,907	554	2,006
Capital Expenditures	109	205	643	141	365	365	1,236	300	1,395
Free Cash Flow	371	159	1,258	315	20	179	671	254	611
Cash Flow per share	0.99	0.75	3.92	0.94	0.79	1.12	3.93	1.14	4.14
Free Cash Flow per share	0.77	0.33	2.59	0.65	0.04	0.37	1.38	0.52	1.26
Dividend (C\$/share)	0.20	0.30	1.10	0.30	0.35	0.35	1.35	0.35	1.40



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Canadian Oil Sands Ltd.					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
Oil	2,300	21.1	11.8	27,220	100%
Debt (US\$mm)					2,000
Net Present Value (US\$mm)					25,220
Shares (mm)					485
Net Present Value (US\$/sh)					52

Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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