



# Independent Stock Idea

July 30, 2012

rating: contrarian buy, s&p 500: 1386

## Canadian Oil Sands Limited (COSWF) Robust Volume Outlook

<i>Symbol</i>	COSWF	<i>Ebitda Next Twelve Months ending 6/30/13 (US\$m)</i>	1,940
<i>Rating</i>	Contrarian Buy	<i>North American Natural Gas/Ebitda (%)</i>	-5
<i>Price (US\$/share)</i>	20.84	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	7/27/12	<i>Adjusted Reserves/Production NTM</i>	19.4
<i>Shares (mm)</i>	485	<i>EV/Ebitda</i>	6.4
<i>Market Capitalization (US\$m)</i>	10,100	<i>PV/Ebitda</i>	12.4
<i>Debt (US\$m)</i>	2,300	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$m)</i>	12,400	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	49.59
<i>Present Value (PV) (US\$m)</i>	24,100	<i>Present Value Proven Reserves(US\$/boe)</i>	31.75
<i>Net Present Value (US\$/share)</i>	45	<i>Ebitda Margin NTM (%)</i>	54
<i>Debt/Present Value</i>	0.10	<i>Earnings Next Twelve Months (US\$/share)</i>	2.17
<i>McDep Ratio - EV/PV</i>	0.51	<i>Price/Earnings Next Twelve Months</i>	10
<i>Dividend Yield (%/year)</i>	6.7	<i>Dividend Next Twelve Months (US\$/share)</i>	1.40
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

With major equipment maintenance completed, Contrarian Buy **Canadian Oil Sands Limited (COSWF)** may see operations near capacity of 350,000 barrels daily at its 37% owned Syncrude oil sands mine and upgrader for the remainder of 2012 and into 2013 (see table Next Twelve Months Operating and Financial Estimates on page 2). Inability to operate at design capacity for any sustained period for the past six years is a major factor contributing to low stock price of \$21 compared to estimated Net Present Value (NPV) of \$45 a share (see table Functional Cash Flow and Present Value on page 3). We lower NPV from \$52 to set a standard that can be beaten if capacity targets can be achieved. Results for the second quarter released after the market on July 27 exceeded our estimates from three months ago on volume, but lower oil price reduced revenue nonetheless. Higher operating expense associated with maintenance further reduced cash flow (Ebitda). Even at the low level of the second quarter, cash flow per share amply exceeded the dividend which continues at C\$0.35 a share for a high indicated yield of 6.7% a year. COSWF stock is a top choice for investors who want a high quality investment in oil production with an attractive long-term return along with inflation protection.

Kurt H. Wulff, CFA



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Canadian Oil Sands Ltd.									
Next Twelve Months Operating and Financial Estimates									
(Canadian Dollars)									
									Next Twelve Months
	Q2 6/30/11	Q1 3/31/12	Q2 6/30/12	Q3E 9/30/12	Q4E 12/31/12	Year 2012E	Q1E 3/31/13	Q2E 6/30/13	6/30/13
<b>Volume</b>									
Syncrude (mmb)	25.6	26.8	21.7	30.7	30.7	110.0	31.5	31.9	124.8
Syncrude (mbd)	281	295	239	334	334	301	350	350	342
Days	91	91	91	92	92	366	90	91	365
Company share (%)	36.6	36.7	37.6	36.7	36.7	36.9	36.7	36.7	36.7
Company Oil (mmb)	9.37	9.84	8.15	11.29	11.29	40.6	11.57	11.70	45.9
Company Oil (mbd)	102.9	108.1	89.6	122.7	122.7	110.8	128.6	128.6	125.6
<b>Price</b>									
WTI Cushing (US\$/bbl)	102.55	102.93	93.32	88.09	88.76	93.27	89.69	90.06	89.15
Currency (US\$/C\$)	1.03	1.00	0.99	1.00	1.00	1.00	1.00	1.00	1.00
WTI Cushing (C\$/bbl)	99.21	103.04	94.25	88.37	89.05	93.68	89.98	90.35	89.44
Differential	11.79	(5.97)	(3.80)	(3.00)	(3.00)	(4.26)	(3.00)	(3.00)	(2.99)
Company Oil Price (C\$/bbl)	111.00	97.07	90.45	85.37	86.05	89.42	86.98	87.35	86.45
Henry Hub Nat Gas (US\$/mm)	4.32	2.73	2.21	2.99	3.27	2.80	3.57	3.53	3.34
Henry Hub Nat Gas (C\$/mmb)	4.18	2.73	2.24	3.00	3.28	2.81	3.58	3.54	3.35
AECO Natural Gas (C\$/GJ)	3.62	2.29	2.04	2.74	2.99	2.52	3.27	3.23	3.06
<b>Revenue (C\$mm)</b>									
Sales	1,040	955	737	964	971	3,628	1,007	1,022	3,964
Crown Royalties	98	96	16	76	78	266	87	91	331
Net Revenue	942	859	721	888	894	3,362	920	932	3,633
<b>Operating Expense (C\$mm)</b>									
Production	297	285	388	350	350	1,373	367	373	1,440
Purchased Energy	50	36	25	46	51	158	57	57	211
<b>Operating Income (C\$mm)</b>	595	538	308	491	493	1,831	496	502	1,983
Administration and Insurance	6	8	10	9	8	35	9	9	35
<b>Ebitda</b>	589	530	298	482	485	1,796	487	493	1,948
Non-Production Expense	25	24	26	26	26	102	37	37	126
Deprec., Deplet., & Amort.	97	95	93	93	93	374	93	93	372
Exchange on U.S. Debt	(8)	(16)	26						
Other	(4)	6	4						
<b>Ebit</b>	478	421	150	363	366	1,300	358	363	1,450
Interest	15	1	9	9	9	28	9	9	36
<b>Ebt</b>	463	420	141	354	357	1,272	349	354	1,414
Income Tax	119	100	39	89	90	318	88	89	356
<b>Net Income (C\$mm)</b>	344	320	102	265	267	954	261	265	1,058
<b>Shares (millions)</b>	485	485	485	485	485	485	485	485	485
Earnings per share (C\$)	0.71	0.66	0.21	0.55	0.55	1.97	0.54	0.55	2.18
Ebitda Margin (E&P)	63%	62%	41%	54%	54%	53%	53%	53%	54%
Tax Rate	26%	24%	28%	25%	25%	25%	25%	25%	25%
<b>Cash Flow (C\$mm)</b>									
Net Income	344	320	102	265	267	954	261	265	1,058
Deprec., Deplet., & Amort.	97	95	93	93	93	374	93	93	372
Exchange on U.S. Debt	(8)	(16)	26			-			-
Deferred tax and other	110	57	27	71	72	227	70	71	285
Cash Flow from Operations	543	456	247	430	432	1,565	424	429	1,715
Capital Expenditures	140	141	292	346	346	1,124	300	300	1,291
Free Cash Flow	403	315	(45)	84	86	441	124	129	424
Cash Flow per share	1.12	0.94	0.51	0.89	0.89	3.23	0.87	0.89	3.54
Free Cash Flow per share	0.83	0.65	(0.09)	0.17	0.18	0.91	0.26	0.27	0.87
<b>Dividend (C\$/share)</b>	0.30	0.30	0.35	0.35	0.35	1.35	0.35	0.35	1.40

Please see disclosures on the final page.

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<b>Canadian Oil Sands Ltd.</b>					
<b>Functional Cash Flow and Present Value</b>					
	<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>			<i>(US\$mm)</i>	
Oil	1,940	19.4	12.4	24,130	100%
Debt (US\$mm)					2,300
Net Present Value (US\$mm)					21,830
Shares (mm)					485
Net Present Value (US\$/sh)					45
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					41

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