



# Independent Stock Idea

December 4, 2014

## Canadian Oil Sands, Ltd. (COSWF) Reduce NPV to US\$20, Dividend to 6%

<i>Symbol</i>	COSWF	<i>Ebitda Next Twelve Months ending 12/31/15 (US\$mm)</i>	870
<i>Rating</i>	Contrarian Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/share)</i>	11.52	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	12/4/14	<i>Adjusted Reserves/Production NTM</i>	19.4
<i>Shares (mm)</i>	485	<i>EV/Ebitda</i>	9.7
<i>Market Capitalization (US\$mm)</i>	5,600	<i>PV/Ebitda</i>	14.4
<i>Debt (US\$mm)</i>	2,800	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$mm)</i>	8,400	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	25.89
<i>Present Value (PV) (US\$mm)</i>	12,500	<i>Present Value Proven Reserves(US\$/boe)</i>	19.20
<i>Net Present Value (US\$/share)</i>	20	<i>Ebitda Margin NTM (%)</i>	36
<i>Debt/Present Value</i>	0.22	<i>Earnings Next Twelve Months (US\$/share)</i>	0.30
<i>McDep Ratio - EV/PV</i>	0.67	<i>Price/Earnings Next Twelve Months</i>	39
<i>Dividend Yield (%/year)</i>	6.1	<i>Dividend Next Twelve Months (US\$/share)</i>	0.71
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\$90 a barrel and natural gas, \$6 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

Continued high costs and lower volume prompt us to give up the extra undervaluation we thought we saw in **Canadian Oil Sands Ltd. (COSWF)**. Instead, we see more typical undervaluation at 0.67 McDep Ratio for a pure oil producer. Budgeting increased operating cost, increased maintenance capital and modest volume along with lower oil price for 2015, management alerted investors last night to an expected reduction in quarterly dividend to C\$0.20 a share from C\$0.35 to be announced with fourth quarter results in January. Taking management's guidance for costs and applying somewhat lower oil price, we estimate cash flow per share of C\$1.38 that covers the dividend of C\$0.80. Yet, cash flow after capital spending (free cash flow) may be less than the dividend (see table Operating and Financial Estimates on page 2). Similarly, taking 2015 expectations as representative of long-term conditions, except for oil price, we see that lower Net Present Value (NPV) is consistent with our estimates for other stocks considering unlevered cash flow multiple and reserve life (see table Present Value on page 3). A month ago we had been encouraged with high production in October. Alas, on the night of December 1, management disclosed that November Syncrude production was 284 thousand barrels daily compared to 352 in October. Meanwhile, management will host a conference call on December 4 at 9:00 EST. The bad news of a feared dividend cut will be reflected when regular trading starts at 9:30. Finally, financial risk is moderate at a ratio of debt to present value of 0.22 while oil price sensitivity is the main risk as well as opportunity.

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Canadian Oil Sands Ltd.										
Next Twelve Months Operating and Financial Estimates										
(Canadian Dollars)										
										Next Twelve Months
	Q4	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	Q4E	12/31/15
	12/31/13	6/30/14	9/30/14	12/31/14	2014E	3/31/15	6/30/15	9/30/15	12/31/15	12/31/15
<b>Volume</b>										
Syncrude (mmb)	28.3	18.4	22.5	29.8	<b>97.0</b>	25.4	25.7	26.0	26.0	<b>103.0</b>
Syncrude (mbd)	308	202	245	323	<b>266</b>	282	282	282	282	<b>282</b>
Days	92	91	92	92	<b>365</b>	90	91	92	92	<b>365</b>
Company share (%)	36.4	38.1	35.9	36.9	<b>36.6</b>	36.7	36.7	36.7	36.7	<b>36.7</b>
Company Oil (mmb)	10.31	7.01	8.08	10.98	<b>35.5</b>	9.33	9.43	9.54	9.54	<b>37.8</b>
Company Oil (mbd)	112.1	77.1	87.8	119.4	<b>97.4</b>	103.7	103.7	103.7	103.7	<b>103.7</b>
<b>Price</b>										
WTI Cushing (US\$/bbl)	97.46	102.98	97.24	80.27	<b>94.81</b>	69.13	69.62	70.01	70.47	<b>69.81</b>
Currency (US\$/C\$)	0.95	0.92	0.92	0.88	<b>0.91</b>	0.88	0.88	0.88	0.88	<b>0.88</b>
WTI Cushing (C\$/bbl)	102.26	112.28	105.85	90.94	<b>104.49</b>	78.32	78.88	79.31	79.83	<b>79.08</b>
Differential	(10.79)	(0.24)	(3.27)	-	<b>(2.80)</b>	(2.00)	(2.00)	(2.00)	(2.00)	<b>(2.00)</b>
Company Oil Price (C\$/bbl)	91.47	112.04	102.58	90.94	<b>101.69</b>	76.32	76.88	77.31	77.83	<b>77.09</b>
<b>Revenue (C\$m)</b>										
Sales	943	786	829	999	<b>3,615</b>	712	725	737	742	<b>2,917</b>
Crown Royalties	52	41	62	97	<b>258</b>	34	38	41	42	<b>154</b>
Net Revenue	891	745	767	901	<b>3,356</b>	678	688	697	701	<b>2,763</b>
<b>Operating Expense (C\$m)</b>										
Production	388	418	385	385	<b>1,633</b>	430	430	430	430	<b>1,720</b>
<b>Operating Income (C\$m)</b>	503	327	382	516	<b>1,723</b>	248	258	267	271	<b>1,043</b>
Administration and Insurance	7	9	10	8	<b>43</b>	15	15	15	15	<b>60</b>
<b>Ebitda</b>	496	318	372	487	<b>1,659</b>	233	243	252	256	<b>983</b>
Development Expense	29	32	34	82	<b>180</b>	42	42	42	42	<b>168</b>
Deprec., Deplet., & Amort.	152	112	126	126	<b>493</b>	126	126	126	126	<b>504</b>
Exchange on U.S. Debt	46	(49)	73		<b>78</b>					
Other	(28)	12	10		<b>41</b>					
<b>Ebit</b>	297	211	128	279	<b>866</b>	65	75	84	88	<b>311</b>
Interest	1	-	1	1	<b>6</b>	23	23	23	23	<b>91</b>
<b>Ebt</b>	296	211	127	278	<b>860</b>	42	52	61	65	<b>220</b>
Income Tax	73	36	40	72	<b>223</b>	11	13	16	17	<b>57</b>
<b>Net Income (C\$m)</b>	223	175	87	206	<b>637</b>	31	38	45	48	<b>163</b>
<b>Shares (millions)</b>	485	485	485	485	<b>485</b>	485	485	485	485	<b>485</b>
Earnings per share (C\$)	0.46	0.36	0.18	0.42	<b>1.31</b>	0.06	0.08	0.09	0.10	<b>0.34</b>
Ebitda Margin (E&P)	56%	43%	48%	54%	<b>49%</b>	34%	35%	36%	36%	<b>36%</b>
Tax Rate	25%	17%	31%	26%	<b>26%</b>	26%	26%	26%	26%	<b>26%</b>
<b>Cash Flow (C\$m)</b>										
Net Income	223	175	87	206	<b>637</b>	31	38	45	48	<b>163</b>
Deprec., Deplet., & Amort.	152	112	126	126	<b>493</b>	126	126	126	126	<b>504</b>
Exchange on U.S. Debt	46	(49)	73		<b>78</b>					
Deferred tax and other	(28)	5	14		<b>25</b>					
Cash Flow from Operations	393	243	301	370	<b>1,272</b>	157	164	171	174	<b>667</b>
Capital Expenditures	292	321	222	178	<b>938</b>	140	140	140	140	<b>560</b>
Free Cash Flow	101	(79)	79	192	<b>334</b>	17	24	31	34	<b>107</b>
Cash Flow per share	0.81	0.50	0.62	0.76	<b>2.62</b>	0.32	0.34	0.35	0.36	<b>1.38</b>
Free Cash Flow per share	0.21	(0.16)	0.16	0.40	<b>0.69</b>	0.04	0.05	0.06	0.07	<b>0.22</b>
<b>Dividend (C\$/share)</b>	0.35	0.35	0.35	0.35	<b>1.40</b>	0.20	0.20	0.20	0.20	<b>0.80</b>



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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>	
Oil	870	19.4	14.4	12,500	100%
Debt (US\$mm)					2,800
Net Present Value (US\$mm)					9,700
Shares (mm)					485
Net Present Value (US\$/sh)					20
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					20

**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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