



Independent Stock Idea

January 30, 2015

Canadian Oil Sands, Ltd. (COSWF) Synchrude Lowers Breakeven to US\$32 a Barrel

<i>Symbol</i>	COSWF	<i>Ebitda Next Twelve Months ending 12/31/15 (US\$mm)</i>	480
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/share)</i>	5.31	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	1/29/15	<i>Adjusted Reserves/Production NTM</i>	19.4
<i>Shares (mm)</i>	485	<i>EV/Ebitda</i>	11.0
<i>Market Capitalization (US\$mm)</i>	2,600	<i>PV/Ebitda</i>	25.8
<i>Debt (US\$mm)</i>	2,700	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$mm)</i>	5,300	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	14.39
<i>Present Value (PV) (US\$mm)</i>	12,400	<i>Present Value Proven Reserves(US\$/boe)</i>	19.05
<i>Net Present Value (US\$/share)</i>	20	<i>Ebitda Margin NTM (%)</i>	28
<i>Debt/Present Value</i>	0.22	<i>Earnings Next Twelve Months (US\$/share)</i>	-0.26
<i>McDep Ratio - EV/PV</i>	0.43	<i>Price/Earnings Next Twelve Months</i>	-21
<i>Dividend Yield (%/year)</i>	3.0	<i>Dividend Next Twelve Months (US\$/share)</i>	0.16

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 www.mcdep.com/4cos.htm

Summary and Recommendation

Releasing fourth quarter results last night, management of **Canadian Oil Sands, Ltd. (COSWF)** announced a restored emphasis on cost management at the 37%-owned Synchrude oil sands mine and upgrader to withstand \$30 oil should that unlikely quote appear on the screen. To paraphrase Mark Twain, rumors of the death of COSWF as implied in low stock price appear greatly exaggerated. At the same time, COSWF reduced its quarterly dividend to a nominal C\$0.05 a share, which we think brings widespread fear behind stock price selling pressure to a climax. For further reassurance, management emphasized that net debt was no more than C\$1.9 billion with no repayment required for three years. Moreover, C\$1.4 billion of untapped credit is available, if needed. On recent futures of US\$49 a barrel for 2015, we estimate positive unlevered cash flow (Ebitda) of C\$0.6 billion. Production cost from management guidance would be C\$1.5 billion, which amounts to C\$40 (US\$32) a barrel (see table Operating and Financial Estimates on page 2). Believing the downside to be covered at a low point in the oil price cycle, we can invest for the upside that we characterize at US\$20 a share presuming a long-term oil price of \$90 a barrel. In other words, a remarkably low McDep Ratio of 0.43 implies a high probability of long-term gain.

Kurt H. Wulff, CFA



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Canadian Oil Sands Ltd.										
Next Twelve Months Operating and Financial Estimates										
(Canadian Dollars)										
										Next Twelve Months
	Q4 12/31/13	Year 2013	Q3 9/30/14	Q4 12/31/14	Year 2014	Q1E 3/31/15	Q2E 6/30/15	Q3E 9/30/15	Q4E 12/31/15	12/31/15
Volume										
Syncrude (mmb)	28.3	97.5	22.5	26.9	94.2	25.0	21.0	28.0	29.0	103.0
Syncrude (mbd)	308	267	245	292	258	278	231	304	315	282
Company share (%)	36.4	36.7	35.9	37.0	36.6	36.7	36.7	36.7	36.7	36.7
Company Oil (mmb)	10.31	35.8	8.08	9.95	34.5	9.19	7.72	10.28	10.65	37.8
Company Oil (mbd)	112.1	98.0	87.8	108.1	94.6	102.1	84.9	111.7	115.7	103.7
Price										
WTI Cushing (US\$/bbl)	97.46	97.98	97.24	73.10	93.02	45.30	48.01	50.38	52.28	48.99
Currency (US\$/C\$)	0.95	0.97	0.92	0.88	0.91	0.79	0.79	0.79	0.79	0.79
WTI Cushing (C\$/bbl)	102.26	100.93	105.85	83.07	102.52	57.34	60.77	63.77	66.18	62.02
Differential	(10.79)	(1.38)	(3.27)	(1.75)	(3.28)	(2.00)	(2.00)	(2.00)	(2.00)	(1.74)
Company Oil Price (C\$/bbl)	91.47	99.55	102.58	81.32	99.24	55.34	58.77	61.77	64.18	60.27
Revenue (C\$mm)										
Sales	943	3,562	829	809	3,425	509	454	635	683	2,281
Crown Royalties	52	174	62	60	221	30	30	30	30	119
Net Revenue	891	3,388	767	749	3,204	479	424	605	654	2,162
Operating Expense (C\$mm)										
Production	388	1,494	385	438	1,686	380	380	380	380	1,521
Operating Income (C\$mm)	503	1,894	382	311	1,518	99	44	225	273	641
Administration and Insurance	7	41	10	1	36	8	8	8	8	30
Ebitda	496	1,853	372	310	1,482	91	36	217	266	611
Development Expense	29	133	34	52	150	38	38	38	38	151
Deprec., Deplet., & Amort.	152	478	126	147	514	138	116	154	160	568
Exchange on U.S. Debt	46	88	73	56	134					
Other	(28)	(1)	10	11	52					
Ebit	297	1,155	128	44	632	(84)	(117)	25	68	(108)
Interest	1	8	1	-	5	26	26	26	26	104
Ebt	296	1,147	127	44	627	(110)	(143)	(1)	42	(212)
Income Tax	73	279	40	20	171	(29)	(37)	(0)	11	(55)
Net Income (C\$mm)	223	868	87	24	456	(82)	(106)	(0)	31	(157)
Shares (millions)	485	485	485	485	485	485	485	485	485	485
Earnings per share (C\$)	0.46	1.79	0.18	0.05	0.94	(0.17)	(0.22)	(0.00)	0.06	(0.32)
Ebitda Margin (E&P)	56%	55%	48%	41%	46%	19%	9%	36%	41%	28%
Tax Rate	25%	24%	31%	45%	27%	26%	26%	26%	26%	26%
Cash Flow (C\$mm)										
Net Income	223	868	87	24	456	(82)	(106)	(0)	31	(157)
Deprec., Deplet., & Amort.	152	478	126	147	514	138	116	154	160	568
Exchange on U.S. Debt	46	88	73	56	134					-
Deferred tax and other	(28)	(81)	14	(19)	7					-
Cash Flow from Operations	393	1,353	301	209	1,111	56	10	154	191	411
Capital Expenditures	292	1,342	222	170	930	113	113	113	113	451
Free Cash Flow	101	11	79	39	181	(57)	(103)	41	78	(40)
Cash Flow per share	0.81	2.79	0.62	0.43	2.29	0.12	0.02	0.32	0.39	0.85
Free Cash Flow per share	0.21	0.02	0.16	0.08	0.37	(0.12)	(0.21)	0.08	0.16	(0.08)
Dividend (C\$/share)	0.35	1.40	0.35	0.05	1.10	0.05	0.05	0.05	0.05	0.20



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