



Independent Stock Idea

October 5, 2015

Canadian Oil Sands, Ltd. (COSWF) Suncor Makes Tender Offer at 0.57 McDep Ratio

<i>Symbol</i>	COSWF	<i>Ebitda Next Twelve Months ending 9/30/16 (US\$mm)</i>	520
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/share)</i>	4.65	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	10/2/15	<i>Adjusted Reserves/Production NTM</i>	17.5
<i>Shares (mm)</i>	485	<i>EV/Ebitda</i>	9.9
<i>Market Capitalization (US\$mm)</i>	2,300	<i>PV/Ebitda</i>	20.6
<i>Debt (US\$mm)</i>	2,900	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$mm)</i>	5,100	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	13.88
<i>Present Value (PV) (US\$mm)</i>	10,600	<i>Present Value Proven Reserves(US\$/boe)</i>	16.28
<i>Net Present Value (US\$/share)</i>	16	<i>Ebitda Margin NTM (%)</i>	30
<i>Debt/Present Value</i>	0.27	<i>Earnings Next Twelve Months (US\$/share)</i>	-0.20
<i>McDep Ratio - EV/PV</i>	0.48	<i>Price/Earnings Next Twelve Months</i>	-23
<i>Dividend Yield (%/year)</i>	3.3	<i>Dividend Next Twelve Months (US\$/share)</i>	0.15

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\$70 a barrel and natural gas, \$4.50 a million btu.

For historical analysis of COS since 2002 see www.mcdep.com/4cos.htm

Summary and Recommendation

Buy-recommended **Canadian Oil Sands, Ltd. (COSWF)** is the target of an unsolicited tender offer from rival producer Suncor (SU) announced before the market open on Monday morning October 5, 2015. The price would be 0.25 Suncor share for each COSWF share, about US\$6.60 calculated at Friday's close of US\$26.58 for SU. That works out to a McDep Ratio of 0.57 at immediate cash value. Our quick reaction is that the price is too low and that owners should hold out for a better offer for final consideration. A "fair" offer in our opinion would be US\$16 where the McDep Ratio would be 1.0. The offer is open until December 4 unless withdrawn or extended. Considering that October is often a seasonal low for stocks and that oil may be trending up, the market may be quite a bit better by December. The complication in Suncor's offer is that it is for Suncor stock, which likely also is priced at a McDep Ratio below 1.0 and would also likely keep up with improvement in oil stock prices generally. Though we once recommended Suncor, we have not been maintaining our coverage. In any case, the first offer is rarely the final offer and we would expect the COSWF board to resist strongly the initial terms.

Kurt H. Wulff, CFA



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Canadian Oil Sands Ltd.										
Next Twelve Months Operating and Financial Estimates										
(Canadian Dollars)										
	Q3	Year	Q2	Q3E	Q4E	Year	Q1E	Q2E	Q3E	Next Twelve Months
	9/30/14	2014	6/30/15	9/30/15	12/31/15	2015E	3/31/16	6/30/16	9/30/16	9/30/16
Volume										
Syncrude (mmb)	22.5	94.2	20.5	21.6	27.6	96.1	26.1	26.4	26.7	106.8
Syncrude (mbd)	245	258	225	235	300	263	290	290	290	293
Company share (%)	35.9	36.6	34.2	37.0	38.2	36.6	36.7	36.7	37.0	37.2
Company Oil (mmb)	8.08	34.5	7.02	7.98	10.54	35.2	9.59	9.70	9.87	39.7
Company Oil (mbd)	87.8	94.6	77.1	86.8	114.6	96.4	106.5	106.5	107.3	108.8
Price										
WTI Cushing (US\$/bbl)	97.24	93.04	57.94	46.39	45.69	49.66	47.21	48.58	49.40	47.72
Currency (US\$/C\$)	0.92	0.91	0.81	0.77	0.76	0.79	0.76	0.76	0.76	0.76
WTI Cushing (C\$/bbl)	105.85	102.54	71.53	60.25	60.13	62.98	62.13	63.93	65.01	62.80
Differential	(3.27)	(3.30)	2.94	(3.00)	(3.00)	(2.69)	(2.00)	(2.00)	(3.00)	(2.56)
Company Oil Price (C\$/bbl)	102.58	99.24	74.47	57.25	57.13	60.29	60.13	61.93	62.01	60.24
Revenue (C\$mm)										
Sales	829	3,425	522	457	602	2,122	577	600	612	2,391
Crown Royalties	62	221	22	27	35	107	34	35	36	139
Net Revenue	767	3,204	500	430	567	2,015	543	565	576	2,252
Operating Expense (C\$mm)										
Production	385	1,686	369	391	391	1,496	380	380	391	1,542
Operating Income (C\$mm)	382	1,518	131	39	176	519	163	185	185	710
Administration and Insurance	10	36	9	9	9	36	8	8	8	32
Ebitda	372	1,482	122	30	167	483	155	178	178	678
Development Expense	34	150	22	42	42	138	38	38	42	160
Deprec., Deplet., & Amort.	126	514	124	120	158	529	144	145	148	595
Exchange on U.S. Debt	73	134	(29)			130				
Other	10	52	(2)			7				
Ebit	128	632	8	(131)	(33)	(321)	(26)	(5)	(12)	(77)
Interest	1	5	32	22	22	98	26	26	22	96
Ebt	127	627	(24)	(153)	(55)	(419)	(52)	(31)	(34)	(173)
Income Tax	40	171	102	(40)	(14)	46	(14)	(8)	(9)	(45)
Net Income (C\$mm)	87	456	(126)	(114)	(41)	(465)	(39)	(23)	(25)	(128)
Shares (millions)	485	485	485	485	485	485	485	485	485	485
Earnings per share (C\$)	0.18	0.94	(0.26)	(0.23)	(0.08)	(0.96)	(0.08)	(0.05)	(0.05)	(0.26)
Ebitda Margin (E&P)	48%	46%	24%	7%	29%	24%	29%	31%	31%	30%
Tax Rate	31%	27%	-423%	26%	26%	-11%	26%	26%	26%	26%
Cash Flow (C\$mm)										
Net Income	87	456	(126)	(114)	(41)	(465)	(39)	(23)	(25)	(128)
Deprec., Deplet., & Amort.	126	514	124	120	158	529	144	145	148	595
Exchange on U.S. Debt	73	134	(29)			130				
Deferred tax and other	14	7	99			75				
Cash Flow from Operations	301	1,111	68	6	117	269	105	122	123	468
Capital Expenditures	222	930	155	97	97	422	90	90	97	374
Free Cash Flow	79	181	(87)	(91)	20	(153)	15	32	26	94
Cash Flow per share	0.62	2.29	0.14	0.01	0.24	0.55	0.22	0.25	0.25	0.96
Free Cash Flow per share	0.16	0.37	(0.18)	(0.19)	0.04	(0.32)	0.03	0.07	0.05	0.19
Dividend (C\$/share)	0.35	1.10	0.05	0.05	0.05	0.20	0.05	0.05	0.05	0.20



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