



# Independent Stock Idea

October 27, 2015

Intraday

## Canadian Oil Sands, Ltd. (COSWF) Deal likely at Higher Price

<i>Symbol</i>	COSWF	<i>Ebitda Next Twelve Months ending 9/30/16 (US\$mm)</i>	600
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/share)</i>	7.28	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	10/27/15	<i>Adjusted Reserves/Production NTM</i>	17.5
<i>Shares (mm)</i>	485	<i>EV/Ebitda</i>	10.6
<i>Market Capitalization (US\$mm)</i>	3,500	<i>PV/Ebitda</i>	17.7
<i>Debt (US\$mm)</i>	2,800	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$mm)</i>	6,400	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	16.12
<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>	34
<i>Debt/Present Value</i>	0.27	<i>Earnings Next Twelve Months (US\$/share)</i>	-0.07
<i>McDep Ratio - EV/PV</i>	0.60	<i>Price/Earnings Next Twelve Months</i>	-111
<i>Dividend Yield (%/year)</i>	2.1	<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 <a href="http://www.mcdep.com/4cos.htm">www.mcdep.com/4cos.htm</a>			

### Summary and Recommendation

We assess three equally likely outcomes of current bidding for Buy-recommended **Canadian Oil Sands, Ltd. (COSWF)** ---1) a higher offer from Suncor, the initiator of the deal action, 2) a higher offer from Imperial (IMO)-ExxonMobil (XOM) or another third party, or 3) no deal and COSWF remains independent. Our estimate of a “fair” price for COSWF is our Net Present Value of US\$16 (C\$21) a share, which presumes a long term oil price of US\$70 a barrel, compared to current price near US\$7 (C\$9) a share and US\$43 a barrel. A midpoint price of US\$12 (C\$15) a share is the minimum that may get the deal done, we think.

### Wonderful Potential Acquisition for Suncor at a Fair Price

The sole asset of COSWF is its 37% interest in Syncrude, an oil sands mine and upgrader directly adjacent to Suncor’s wholly-owned oil sands mine and upgrader. Since Suncor already has 12% of Syncrude, the acquisition of COSWF would boost its interest to 49%. There are two 5% owners. Suncor might target one for purchase in cash or an asset swap. With majority control Suncor could gain operatorship and manage the two oil sands projects as one to realize maximum efficiency and profit.

### Wonderful Potential Acquisition for Imperial-ExxonMobil at a Fair Price

Imperial Oil, 69% owned by ExxonMobil, has 25% of Syncrude and an agreement to manage the facility. Suncor’s unfriendly bid for COSWF is an invitation to Imperial Oil to negotiate a friendly offer to give it a majority interest in an asset that is already benefitting from the full management attention and operating expertise of ExxonMobil. The circumstances make COSWF



# Independent Stock Idea

October 27, 2015

Intraday

a more willing seller than if Suncor had not made its unsolicited tender offer. With a majority interest in Syncrude, Imperial would be better positioned to integrate operations with the nearby, newly built Imperial-ExxonMobil Kearl bitumen mine.

## **Attractive Independent COSWF for Long-term Investors**

Trading above the equivalent of 0.25 share of Suncor offered for each share, COSWF stock action implies that investors have little interest in tendering to Suncor. Investors have already made their choice as to how much COSWF or SU is appropriate to own from a portfolio point of view of balancing reward and risk. Meanwhile, the surprise bid from Suncor triggers more intense scrutiny of underlying value in COSWF.

In its information circular for shareholders, management discloses that Suncor and Syncrude have been negotiating potential Suncor access to Syncrude's undeveloped Lease 29, a "higher quality and larger ore body" contiguous to the nearly exhausted Steepbank mine that is the main supply to Suncor's upgrader. Syncrude has surplus long-term supply where Suncor is short.

Meeting with shareholders in the U.S. and Canada, management stresses that cost reduction is proceeding more rapidly than expected. The completion of major capital projects helps, lower oil price adds urgency and the unique pressure of an unfriendly takeover offer focusses attention on what more can be done. Syncrude is generating free cash flow today and management thinks the cash breakeven can be lowered further. Unexpectedly high costs that seemed fixed under lax control are becoming variable as greater scrutiny is applied.

Finally, management is ever optimistic about increasing reliability after years of operations that fell short of capacity. The large new coker has successfully completed full three year runs between maintenance shutdowns and the two older cokers are approaching the three year standard. Smooth running for the fourth quarter of 2015 will be telling for shareholder confidence (see table Operating and Financial Estimates on page 3). Third quarter results are due to be released on October 29.

Kurt H. Wulff, CFA



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October 27, 2015

Intraday

Canadian Oil Sands Ltd.										
Next Twelve Months Operating and Financial Estimates										
(Canadian Dollars)										
										Next Twelve Months
	Q3	Year	Q2	Q3E	Q4E	Year	Q1E	Q2E	Q3E	9/30/16
	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
<b>Volume</b>										
Syncrude (mmb)	22.5	<b>94.2</b>	20.5	21.6	27.6	<b>96.1</b>	26.1	26.4	26.7	<b>106.8</b>
Syncrude (mbd)	245	<b>258</b>	225	235	300	<b>263</b>	290	290	290	<b>293</b>
Company share (%)	35.9	<b>36.6</b>	34.2	37.0	38.2	<b>36.6</b>	36.7	36.7	37.0	<b>37.2</b>
Company Oil (mmb)	8.08	<b>34.5</b>	7.02	7.98	10.54	<b>35.2</b>	9.59	9.70	9.87	<b>39.7</b>
Company Oil (mbd)	87.8	<b>94.6</b>	77.1	86.8	114.6	<b>96.4</b>	106.5	106.5	107.3	<b>108.8</b>
<b>Price</b>										
WTI Cushing (US\$/bbl)	97.24	<b>93.04</b>	57.94	46.39	47.43	<b>50.09</b>	49.16	50.63	51.55	<b>49.69</b>
Currency (US\$/C\$)	0.92	<b>0.91</b>	0.81	0.77	0.75	<b>0.79</b>	0.75	0.75	0.75	<b>0.75</b>
WTI Cushing (C\$/bbl)	105.85	<b>102.54</b>	71.53	60.25	62.89	<b>63.67</b>	65.19	67.14	68.36	<b>65.90</b>
Differential	(3.27)	<b>(3.30)</b>	2.94	(3.00)	(3.00)	<b>(2.56)</b>	(2.00)	(2.00)	(3.00)	<b>(2.57)</b>
Company Oil Price (C\$/bbl)	102.58	<b>99.24</b>	74.47	57.25	59.89	<b>61.12</b>	63.19	65.14	65.36	<b>63.33</b>
<b>Revenue (C\$m)</b>										
Sales	829	<b>3,425</b>	522	457	631	<b>2,151</b>	606	632	645	<b>2,514</b>
Crown Royalties	62	<b>221</b>	22	27	37	<b>108</b>	35	37	38	<b>147</b>
Net Revenue	767	<b>3,204</b>	500	430	595	<b>2,043</b>	571	595	608	<b>2,368</b>
<b>Operating Expense (C\$m)</b>										
Production	385	<b>1,686</b>	369	391	391	<b>1,496</b>	380	380	391	<b>1,542</b>
<b>Operating Income (C\$m)</b>	382	<b>1,518</b>	131	39	204	<b>547</b>	190	215	217	<b>825</b>
Administration and Insurance	10	<b>36</b>	9	9	9	<b>36</b>	8	8	8	<b>32</b>
<b>Ebitda</b>	372	<b>1,482</b>	122	30	195	<b>511</b>	183	207	209	<b>794</b>
Development Expense	34	<b>150</b>	22	42	42	<b>138</b>	38	38	42	<b>160</b>
Deprec., Deplet., & Amort.	126	<b>514</b>	124	120	158	<b>529</b>	144	145	148	<b>595</b>
Exchange on U.S. Debt	73	<b>134</b>	(29)			<b>130</b>				
Other	10	<b>52</b>	(2)			<b>7</b>				
<b>Ebit</b>	128	<b>632</b>	8	(131)	(5)	<b>(293)</b>	1	24	19	<b>39</b>
Interest	1	<b>5</b>	32	22	22	<b>98</b>	26	26	22	<b>96</b>
<b>Ebt</b>	127	<b>627</b>	(24)	(153)	(27)	<b>(391)</b>	(25)	(2)	(3)	<b>(57)</b>
Income Tax	40	<b>171</b>	102	(40)	(7)	<b>53</b>	(6)	(0)	(1)	<b>(15)</b>
<b>Net Income (C\$m)</b>	87	<b>456</b>	(126)	(114)	(20)	<b>(444)</b>	(18)	(1)	(2)	<b>(42)</b>
<b>Shares (millions)</b>	485	<b>485</b>	485	485	485	<b>485</b>	485	485	485	<b>485</b>
Earnings per share (C\$)	0.18	<b>0.94</b>	(0.26)	(0.23)	(0.04)	<b>(0.92)</b>	(0.04)	(0.00)	(0.00)	<b>(0.09)</b>
Ebitda Margin (E&P)	48%	<b>46%</b>	24%	7%	33%	<b>25%</b>	32%	35%	34%	<b>34%</b>
Tax Rate	31%	<b>27%</b>	-423%	26%	26%	<b>-14%</b>	26%	26%	26%	<b>26%</b>
<b>Cash Flow (C\$m)</b>										
Net Income	87	<b>456</b>	(126)	(114)	(20)	<b>(444)</b>	(18)	(1)	(2)	<b>(42)</b>
Deprec., Deplet., & Amort.	126	<b>514</b>	124	120	158	<b>529</b>	144	145	148	<b>595</b>
Exchange on U.S. Debt	73	<b>134</b>	(29)			<b>130</b>				
Deferred tax and other	14	<b>7</b>	99			<b>75</b>				
Cash Flow from Operations	301	<b>1,111</b>	68	6	138	<b>289</b>	126	144	146	<b>553</b>
Capital Expenditures	222	<b>930</b>	155	97	97	<b>422</b>	90	90	97	<b>374</b>
Free Cash Flow	79	<b>181</b>	(87)	(91)	41	<b>(133)</b>	36	54	49	<b>179</b>
Cash Flow per share	0.62	<b>2.29</b>	0.14	0.01	0.28	<b>0.60</b>	0.26	0.30	0.30	<b>1.14</b>
Free Cash Flow per share	0.16	<b>0.37</b>	(0.18)	(0.19)	0.08	<b>(0.27)</b>	0.07	0.11	0.10	<b>0.37</b>
<b>Dividend (C\$/share)</b>	0.35	<b>1.10</b>	0.05	0.05	0.05	<b>0.20</b>	0.05	0.05	0.05	<b>0.20</b>



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