



Independent Stock Idea

January 29, 2010

rating: buy
s&p 500: 1085

Canadian Oil Sands Trust (COSWF) Distribution Unchanged, Reduce NPV to US\$38 from US\$42

<i>Symbol</i>	COSWF	<i>Ebitda Next Twelve Months ending 12/31/10 (US\$mm)</i>	1,360
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	-8
<i>Price (US\$/un)</i>	26.28	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	1/28/10	<i>Adjusted Reserves/Production NTM</i>	23.1
<i>Units (mm)</i>	484	<i>EV/Ebitda</i>	10.3
<i>Market Capitalization (US\$mm)</i>	12,700	<i>PV/Ebitda</i>	14.5
<i>Debt (US\$mm)</i>	1,300	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$mm)</i>	14,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	31.46
<i>Present Value (PV) (US\$mm)</i>	19,700	<i>Present Value Proven Reserves(US\$/boe)</i>	23.20
<i>Net Present Value (US\$/unit)</i>	38	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	42
<i>Debt/Present Value</i>	0.07	<i>Earnings Next Twelve Months (US\$/unit)</i>	1.17
<i>McDep Ratio - EV/PV</i>	0.71	<i>Price/Earnings Next Twelve Months</i>	22
<i>Distribution Yield (%/year)</i>	5.0	<i>Distribution Next Twelve Months (US\$/unit)</i>	1.31
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\$75 a barrel and natural gas, \$8 a million btu.			
For historical analysis of COS since 2002 see www.mcdep.com/4cos.htm			

Summary and Recommendation

Buy-recommended **Canadian Oil Sands Trust (COSWF)** offers unlevered appreciation potential of 40% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of US\$38 a share, reduced from US\$42. Our discounted cash flow calculation of NPV includes higher future expense than previously as we take a cue from latest guidance for 2010 (see table [Present Value of Future Cash Flow](#)). Fourth quarter results released after the January 28 market close detail unlevered cash flow (Ebitda) close to our expectations of three months ago, after adjusting for unplanned downtime in November (see table [Next Twelve Months Operating and Financial Estimates](#)). Nonetheless, management chose not to raise the quarterly distribution, contrary to our expectations. Subject to a vote of shareholders at the annual meeting on April 29, COSWF expects to convert to a corporation at year end. Similar to actions at other income trusts about to lose their tax status that supported higher distributions, COSWF already appears to be setting its distribution level on a more typical corporate basis. Thus, instead of estimating distributions a trust would normally pay, we simply use the latest quarterly declaration, as we do for most corporations, as an indication for the year ahead. Amply supported by industry conditions, the current distribution indicates a 5% annual yield at latest stock price. The distribution and NPV are sensitive to oil price for which the trend continues positive. Futures prices for the next six years at \$83 a barrel are above the 40-week average of \$81 (see chart [Six-Year Commodity Price Meter](#)). Before results were released, COSWF stock price closed 1% above its 200-day average.

Kurt H. Wulff, CFA



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Canadian Oil Sands Trust												
Present Value of Future Cash Flow												
Nymex Crude (US\$/b):		75		PV/unit (US\$):		38		Discount rate (%/yr):		7.0		
Canadian Dollar/\$US		0.94						Nymex Nat Gas (\$/mmbtu)		8.00		
Year	Volume		Price (US\$/bbl)	Revenue (C\$mm)	Prod Cost (C\$/bbl)	Natural Gas (C\$/bbl)	NonOper (C\$/bbl)	Capital (C\$/bbl)	Royalty (C\$mm)	Cash Flow (C\$mm)	Disc Factor	Present Value (C\$mm)
	Syncrude (mbd)	Trust (mmb)										
Total 2010 through 2059; years ending on 12/30												
		2340		191589					18989	75143	0.28	20700
2010	315	42.3	75.71	3403	29.06	6.14	1.99	16.28	391	753	0.97	728
2011	350	46.9	77.00	3841	26.00	7.23	4.00	9.00	335	1338	0.90	1209
2012	350	46.9	77.00	3841	26.00	7.23	4.00	9.00	335	1338	0.84	1130
2013	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.79	1204
2014	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.74	1125
2015	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.69	1052
2016	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.64	983
2017	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.60	919
2018	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.56	859
2019	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.53	802
2020	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.49	750
2021	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.46	701
2022	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.43	655
2023	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.40	612
2024	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.37	572
2025	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.35	535
2026	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.33	500
2027	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.31	467
2028	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.29	436
2029	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.27	408
2030	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.25	381
2031	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.23	356
2032	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.22	333
2033	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.20	311
2034	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.19	291
2035	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.18	272
2036	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.17	254
2037	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.16	237
2038	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.15	222
2039	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.14	207
2040	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.13	194
2041	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.12	181
2042	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.11	169
2043	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.10	158
2044	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.10	148
2045	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.09	138
2046	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.08	129
2047	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.08	121
2048	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.07	113
2049	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.07	105
2050	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.06	99
2051	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.06	92
2052	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.06	86
2053	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.05	80
2054	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.05	75
2055	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.05	70
2056	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.04	66
2057	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.04	61
2058	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.04	57
2059	350	46.9	77.00	3841	26.00	7.23	2.00	6.00	381	1526	0.04	54



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Canadian Oil Sands Trust									
Next Twelve Months Operating and Financial Estimates									
(Canadian Dollars)									
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Next Twelve Months
	12/31/08	9/30/09	12/31/09	2009	3/31/10	6/30/10	9/30/10	12/31/10	12/31/10
Volume									
Syncrude (mmb)	28.4	28.7	30.1	102.2	27.0	28.0	30.0	30.0	115.0
Syncrude (mbd)	308	312	327	280	300	308	326	326	315
Days	92	92	92	365	90	91	92	92	365
Trust share (%)	35.7	36.7	36.4	36.8	36.7	36.7	36.7	36.7	36.7
Trust Oil (mmb)	10.14	10.54	10.97	37.6	9.92	10.29	11.02	11.02	42.3
Trust Oil (mbd)	110.2	114.5	119.3	103.1	110.2	113.0	119.8	119.8	115.8
Price									
WTI Cushing (US\$/bbl)	58.45	68.22	76.09	61.70	76.39	76.28	77.97	79.52	77.54
Currency (US\$/C\$)	0.83	0.91	0.95	0.89	0.94	0.94	0.94	0.94	0.94
WTI Cushing (C\$/bbl)	70.62	74.83	80.35	69.50	81.37	81.26	83.05	84.70	82.59
Differential	(1.22)	(1.52)	(1.68)	(0.06)	(2.00)	(2.00)	(2.00)	(2.00)	(1.94)
Trust Oil Price (C\$/bbl)	69.40	73.31	78.67	69.44	79.37	79.26	81.05	82.70	80.65
Henry Hub Nat Gas (US\$/mmBtu)	6.95	3.39	4.16	3.99	5.75	5.66	5.84	6.29	5.88
Henry Hub Nat Gas (C\$/mmBtu)	8.40	3.72	4.40	4.49	6.13	6.03	6.22	6.70	6.27
AECO Natural Gas (C\$/GJ)	6.41	2.90	4.33	3.82	6.04	5.94	6.12	6.59	6.17
Revenue (C\$m)									
Oil	704	773	863	2,614	787	815	893	912	3,408
Transportation & Marketing	10			-					-
Other	(12)	(0)	(0)	(5)					-
Total	705	773	864	2,618	787	815	893	912	3,408
Expense (C\$m)									
Production	261	266	284	1,174	307	307	307	307	1,228
Purchased Energy	65	27	47	154	60	61	67	72	260
Crown Royalties	59	108	93	228	86	91	106	109	391
Insurance	1	2	3	9	3	3	3	3	11
Administration	1	6	6	24	7	7	7	7	26
Reclamation Spending	-	-	-	-	12	12	12	12	47
Total	387	409	433	1,589	473	480	501	509	1,963
Ebitda	318	364	431	1,029	314	335	392	403	1,445
Deprec., Deplet., & Amort.	119	123	312	622	150	150	150	150	600
Currency Hedging				-					
Non-Production	24	34	35	141	37	37	37	37	147
Exchange on U.S. Debt	106	(90)	(23)	(161)					-
Future Income Tax	(75)	25	(13)	(101)					-
Ebit	144	272	120	528	127	149	206	216	698
Interest	19	25	23	93	23	23	23	23	93
Net Income (C\$m)	125	247	97	435	104	125	182	193	605
Per Unit (C\$)	0.26	0.51	0.20	0.90	0.22	0.26	0.38	0.40	1.25
Units (millions)	482	484	484	484	484	484	484	484	484
Ebitda minus Interest	299	339	408	936	291	312	369	380	1,352
Per Unit (C\$)	0.62	0.70	0.84	1.94	0.60	0.65	0.76	0.78	2.79
Ratios									
Production (C\$/bbl)	25.78	25.28	25.86	31.18	30.95	29.84	27.85	27.85	29.06
Purchased Energy (C\$/bbl)	6.37	2.52	4.31	4.10	6.00	5.90	6.09	6.56	6.14
Prod&Purch En (C\$/bbl)	32.16	27.80	30.16	35.28	36.95	35.74	33.94	34.41	35.21
Crown Royalties & Taxes	8%	14%	11%	9%	11%	11%	12%	12%	11%
Ebitda Margin	45%	47%	50%	39%	40%	41%	44%	44%	42%
Deprec., D.& A (C\$/bbl)	11.74	11.67	28.43	16.52	15.12	14.58	13.61	13.61	14.20
Distribution (C\$/unit)	0.75	0.25	0.35	0.90	0.35	0.35	0.35	0.35	1.40

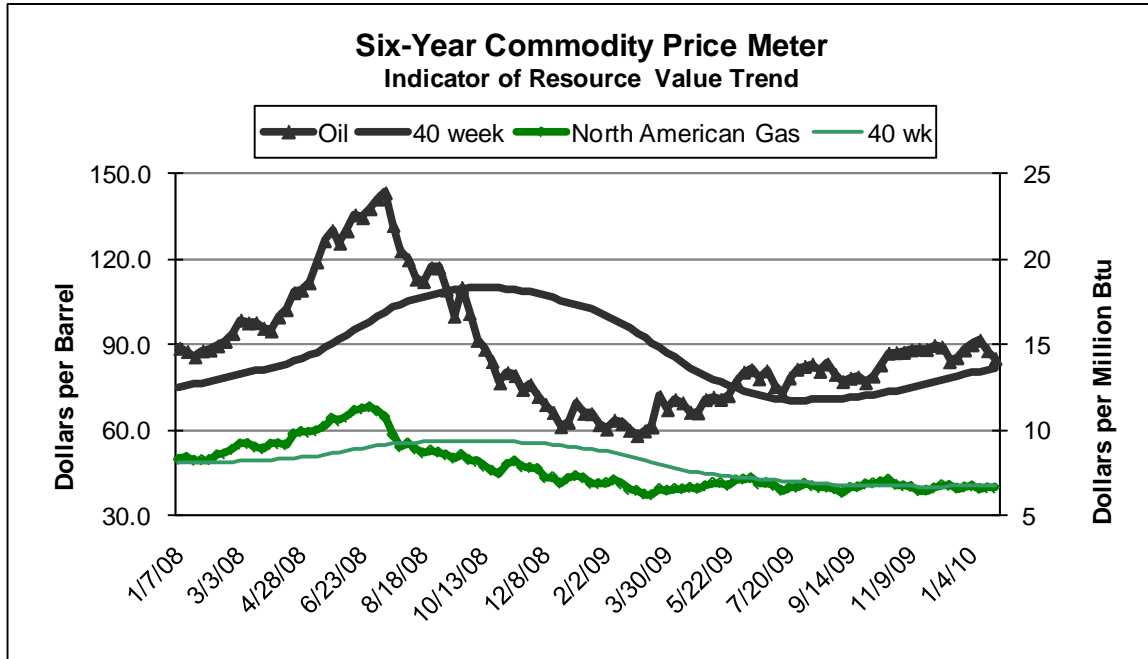
Please see disclosures on the final page.

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