



Independent Stock Idea

October 29, 2010

rating: contrarian buy
s&p 500: 1184

Canadian Oil Sands Trust (COSWF) Oil Value amid Political Turmoil

<i>Symbol</i>	COSWF	<i>Ebitda Next Twelve Months ending 9/30/11 (US\$mm)</i>	1,630
<i>Rating</i>	Contrarian Buy	<i>North American Natural Gas/Ebitda (%)</i>	-4
<i>Price (US\$/share)</i>	25.77	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	10/27/10	<i>Adjusted Reserves/Production NTM</i>	29.5
<i>Shares (mm)</i>	484	<i>EV/Ebitda</i>	8.6
<i>Market Capitalization (US\$mm)</i>	12,500	<i>PV/Ebitda</i>	12.2
<i>Debt (US\$mm)</i>	1,500	<i>Probable Reserves (%)</i>	48
<i>Enterprise Value (EV) (US\$mm)</i>	14,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	38.29
<i>Present Value (PV) (US\$mm)</i>	19,900	<i>Present Value Proven and Probable Reserves(US\$/boe)</i>	23.44
<i>Net Present Value (US\$/share)</i>	38	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	47
<i>Debt/Present Value</i>	0.08	<i>Earnings Next Twelve Months (US\$/share)</i>	1.76
<i>McDep Ratio - EV/PV</i>	0.70	<i>Price/Earnings Next Twelve Months</i>	15
<i>Dividend Yield (%/year)</i>	6.4	<i>Dividend Next Twelve Months (US\$/share)</i>	1.65
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.			
For historical analysis of COS since 2002 see www.mcdep.com/4cos.htm			

Summary and Recommendation

We recommend **Canadian Oil Sands Trust (COSWF)** stock as a Contrarian Buy for a pure play on long-term oil price with unlevered appreciation potential of 42% to Net Present Value (NPV) of US\$38 a unit. Third quarter results, released the evening of October 28, exceeded our recent expectations and the declared quarterly distribution of C\$0.50 a share met our expectation. *Bloomberg* reported that adjusted earnings exceeded the consensus of 8 analysts. In a long-anticipated change triggered by Canadian government action exactly 4 years ago on Halloween 2006, COSWF and the other Canadian income trusts in our coverage will convert to corporations in 2011. Stock prices have had ample time to adjust to lower corporate dividends that for COSWF we suggest may be C\$0.40 a share quarterly next year (see table Next Twelve Months Dividend Estimates). To support that we project a continuation of the volume growth of the past seven years adjusted to the historical monthly pattern (see chart Syncrude Monthly Production). We take oil price for the next year from latest futures market quotes (see table Next Twelve Months Operating and Financial Estimates). On the eve of a U.S. mid-term election we are reminded of the parallel situation in 1978 when U.S. political leadership expanded government control, raised taxes and spent wastefully. In the ensuing two years price gained four-fold for gold, more than two-fold for oil and about a half for the broader stock market. When new leadership cut taxes and restricted government and the monetary authority raised interest rates to compensate for inflation, prices stabilized and a new era of economic growth was launched.

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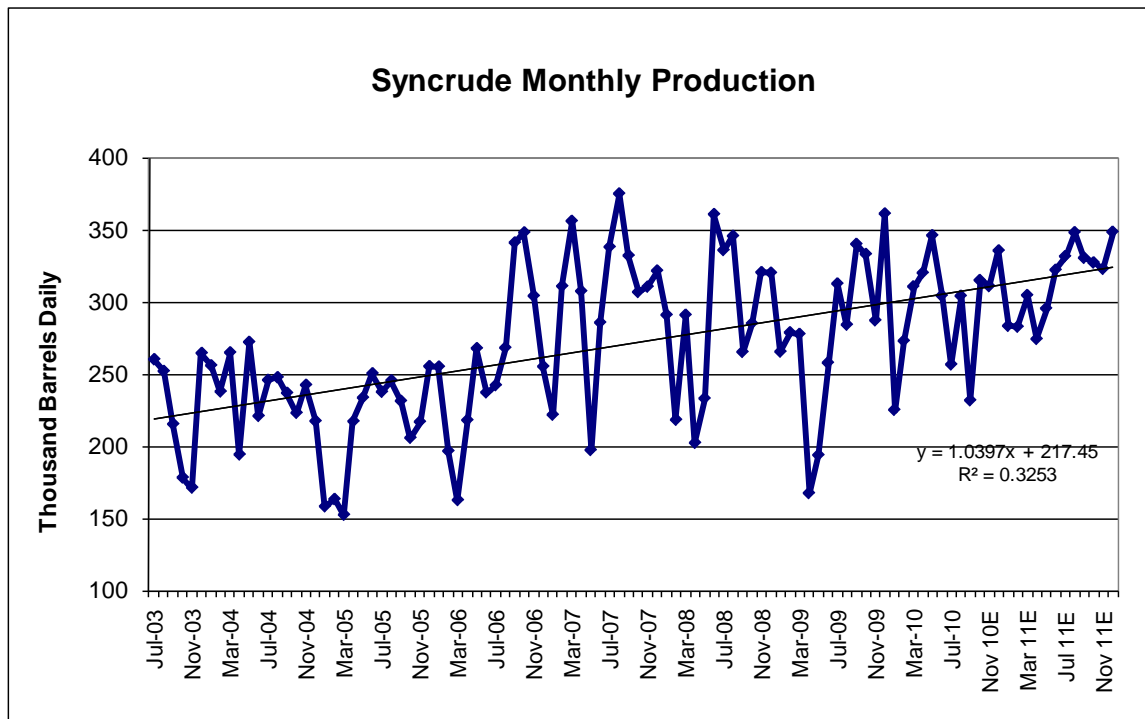
Canadian Oil Sands Trust									
Next Twelve Months Operating and Financial Estimates									
(Canadian Dollars)									
									Next Twelve Months
	Q3 9/30/09	Q2 6/30/10	Q3 9/30/10	Q4E 12/31/10	Year 2010E	Q1E 3/31/11	Q2E 6/30/11	Q3E 9/30/11	9/30/11
Volume									
Syncrude (mmb)	28.7	29.5	24.3	29.5	107.5	26.1	27.0	31.0	113.6
Syncrude (mbd)	312	324	264	320	294	290	297	337	311
Trust share (%)	36.7	36.6	36.5	36.7	36.7	36.7	36.7	36.7	36.7
Trust Oil (mmb)	10.54	10.79	8.88	10.83	39.4	9.60	9.93	11.38	41.7
Trust Oil (mbd)	114.5	118.6	96.5	117.7	108.0	106.7	109.2	123.7	114.4
Price									
WTI Cushing (US\$/bbl)	68.22	77.85	76.08	82.13	78.69	83.79	84.87	85.71	84.13
Currency (US\$/C\$)	0.91	0.97	0.96	0.97	0.97	0.97	0.97	0.97	0.97
WTI Cushing (C\$/bbl)	74.83	80.05	79.05	84.41	81.33	86.11	87.23	88.09	86.46
Differential	(1.52)	(1.98)	(1.11)	(1.50)	(1.06)	(1.50)	(1.50)	(1.50)	(1.48)
Trust Oil Price (C\$/bbl)	73.31	78.07	77.94	82.91	80.28	84.61	85.73	86.59	84.98
Henry Hub Nat Gas (US\$/mmBtu)	3.39	4.09	4.38	3.71	4.37	4.19	4.14	4.30	4.08
Henry Hub Nat Gas (C\$/mmBtu)	3.72	4.21	4.55	3.81	4.52	4.31	4.25	4.42	4.20
AECO Natural Gas (C\$/GJ)	2.90	3.68	3.44	2.88	3.74	3.25	3.22	3.34	3.17
Revenue (C\$m)									
Oil	773	842	692	898	3,166	812	852	986	3,548
Other	(0)	0							
Total	773	842	692	898	3,166	812	852	986	3,548
Expense (C\$m)									
Production	266	294	319	319	1,239	319	319	319	1,276
Purchased Energy	27	42	36	36	161	36	37	44	152
Crown Royalties	108	85	68	68	299	99	105	131	403
Insurance	2	3	5	3	13	3	3	3	11
Administration	6	8	1	9	26	7	7	7	29
Total	409	432	429	435	1,738	463	470	503	1,871
Ebitda	364	410	263	463	1,428	349	382	483	1,677
Deprec., Deplet., & Amort.	123	94	95	100	392	100	100	100	400
Non-Production	34	19	26	37	118	25	25	25	112
Exchange on U.S. Debt	(90)	38	(30)						
Other	25	(0)	(20)						
Ebit	272	259	191	326	972	224	257	358	1,165
Interest	25	22	22	21	91	22	22	22	87
Ebt						202	235	336	
Income Tax						53	61	87	
Net Income (C\$m)	247	237	169	305	881	149	174	248	877
Shares (millions)	484	484	484	484	484	484	484	484	484
Earnings per share (C\$)	0.51	0.49	0.35	0.63	1.82	0.31	0.36	0.51	1.81
Ebitda Margin (E&P)	47%	49%	38%	52%	45%	43%	45%	49%	47%
Tax Rate						26%	26%	26%	



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Canadian Oil Sands Trust									
Next Twelve Months Dividend Estimates									
(Canadian Dollars)									
									<i>Next</i>
	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Twelve</i>
	<i>9/30/09</i>	<i>6/30/10</i>	<i>9/30/10</i>	<i>12/31/10</i>	<i>2010E</i>	<i>3/31/11</i>	<i>6/30/11</i>	<i>9/30/11</i>	<i>Months</i>
									<i>9/30/11</i>
Ebitda	364	410	263	463	1,428	349	382	483	1,677
Interest	25	22	22	21	91	22	22	22	87
Current Income Tax						10	10	10	30
Cash Flow Before Reinvestment	339	388	241	442	1,337	317	350	451	1,560
Non-Production Expense	34	19	26	37	118	25	25	25	112
Capital Expenditures	85	114	137	168	511	150	150	150	618
Free Cash Flow	220	255	78	237	708	142	175	276	830
FCF per share (C\$)	0.45	0.53	0.16	0.49	1.46	0.29	0.36	0.57	1.71
Dividend (C\$/share)	0.25	0.50	0.50	0.50	1.85	0.40	0.40	0.40	1.70





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