



Independent Stock Idea

July 31, 2013

Canadian Oil Sands Ltd. (COSWF) CEO Change May Catalyze Operating Reliability

<i>Symbol</i>	COSWF	<i>Ebitda Next Twelve Months ending 6/30/14 (US\$mm)</i>	2,000
<i>Rating</i>	Contrarian Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (US\$/share)</i>	19.73	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	7/30/13	<i>Adjusted Reserves/Production NTM</i>	20.2
<i>Shares (mm)</i>	485	<i>EV/Ebitda</i>	6.0
<i>Market Capitalization (US\$mm)</i>	9,600	<i>PV/Ebitda</i>	9.5
<i>Debt (US\$mm)</i>	2,500	<i>Undeveloped Reserves (%)</i>	0
<i>Enterprise Value (EV) (US\$mm)</i>	12,100	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	58.23
<i>Present Value (PV) (US\$mm)</i>	19,000	<i>Present Value Proven Reserves(US\$/boe)</i>	27.42
<i>Net Present Value (US\$/share)</i>	34	<i>Ebitda Margin NTM (%)</i>	51
<i>Debt/Present Value</i>	0.13	<i>Earnings Next Twelve Months (US\$/share)</i>	2.22
<i>McDep Ratio - EV/PV</i>	0.64	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	6.9	<i>Dividend Next Twelve Months (US\$/share)</i>	1.36
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

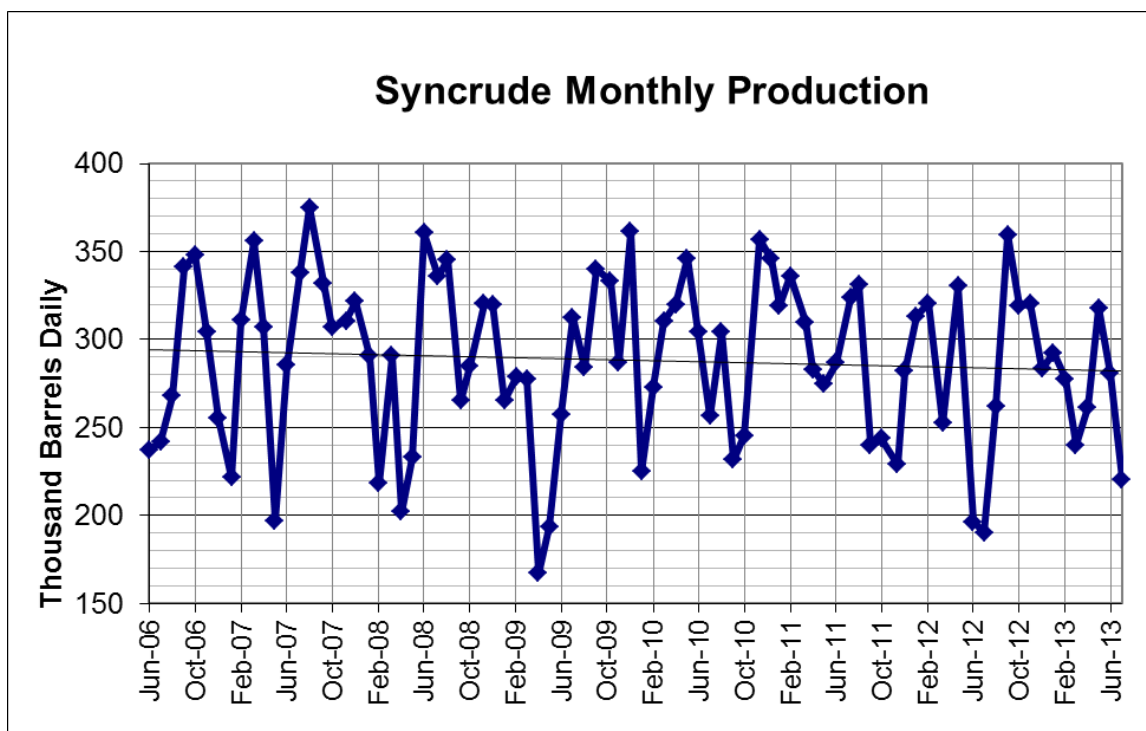
A new Chief Executive Officer, yet to be named, will take charge of buy-recommended **Canadian Oil Sands Ltd. (COSWF)** on January 1, 2014 upon the surprise retirement of Mr. Marcel Coutu, announced with the release of second quarter results after the market close on July 30. During twelve years under Mr. Coutu's leadership the compound annual total return on COSWF stock was a respectable 14% a year. Yet, during the last six years operating volume has been declining to about 20% below design capacity (see chart Syncrude Monthly Production on page 2). Mr. Coutu has been Chairman of the oil sands producer, 37% owned by COSWF, while the CEO of Syncrude has been from **ExxonMobil (XOM)**, 25% owner of Syncrude through 70%-owned **Imperial Oil (IMO)**. Meanwhile, reported cash flow (Ebitda) exceeded our expectations from a few weeks ago on the strength of a surprisingly strong premium for COSWF's Synthetic Crude Oil (SCO) compared to benchmark West Texas Intermediate (WTI) (see table Operating and Financial Estimates on page 3). Favorable financial results prompt an increase in cash flow guidance for 2013 despite a lowering of volume guidance by 3%. Before reinvestment, cash flow is running at twice the dividend. The completion of a major capital program by 2015 allows for a higher dividend at that time, further enhancing the appeal of the current 6.9% yield. Finally, a new CEO at COSWF next year combined with the new CEO of IMO named earlier this year may be the leadership to take Syncrude to higher operating reliability and more predictable results.

Kurt H. Wulff, CFA



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Canadian Oil Sands Ltd.					
Functional Cash Flow and Present Value					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
Oil	2,000	20.2	9.5	18,990	100%
Debt (US\$mm)					2,500
Net Present Value (US\$mm)					16,490
Shares (mm)					485
Net Present Value (US\$/sh)					34
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					35



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Canadian Oil Sands Ltd.										
Next Twelve Months Operating and Financial Estimates										
(Canadian Dollars)										
										Next Twelve Months
	Q2 6/30/12	Year 2012	Q1 3/31/13	Q2 6/30/13	Q3E 9/30/13	Q4E 12/31/13	Year 2013E	Q1E 3/31/14	Q2E 6/30/14	
Volume										
Syncrude (mmb)	21.7	104.9	23.4	24.8	25.2	28.5	102.0	27.0	27.3	108.0
Syncrude (mbd)	239	287	260	273	274	310	279	300	300	296
Days	91	366	90	91	92	92	365	90	91	365
Company share (%)	37.6	36.9	36.8	36.7	36.7	36.7	36.7	36.7	36.7	36.7
Company Oil (mmb)	8.15	38.7	8.61	9.11	9.25	10.48	37.4	9.92	10.03	39.7
Company Oil (mbd)	89.6	105.7	95.7	100.1	100.5	113.9	102.6	110.2	110.2	108.7
Price										
WTI Cushing (US\$/bbl)	93.32	94.16	94.41	94.22	104.65	102.71	99.00	98.99	96.29	100.66
Currency (US\$/C\$)	0.99	1.00	0.99	0.98	0.97	0.97	0.98	0.97	0.97	0.97
WTI Cushing (C\$/bbl)	94.25	94.12	95.13	96.41	107.37	105.38	101.07	101.58	98.80	103.28
Differential	(3.80)	(2.26)	0.98	4.49	1.00	1.00	2.10	1.00	1.00	0.95
Company Oil Price (C\$/bbl)	90.45	91.86	96.11	100.90	108.37	106.38	103.18	102.58	99.80	104.23
Revenue (C\$mm)										
Sales	737	3,554	828	919	1,002	1,115	3,864	1,018	1,001	4,135
Crown Royalties	16	202	23	28	30	47	129	33	30	140
Net Revenue	721	3,352	805	891	972	1,068	3,735	985	971	3,995
Operating Expense (C\$mm)										
Production	413	1,511	355	394	400	400	1,549	400	400	1,600
Administration and Insurance	10	36	16	8	8	8	40	10	8	34
Ebitda	298	1,805	434	458	499	548	1,939	506	499	2,052
Development Expense	26	101	26	37	37	37	137	39	42	155
Deprec., Deplet., & Amort.	93	403	122	103	103	103	431	103	103	412
Exchange on U.S. Debt	26	(25)	28	45			73			
Other	4	(2)	7	(23)			(15)			
Ebit	150	1,329	250	295	359	408	1,313	364	354	1,485
Interest	9	26	3	3	3	3	12	2	2	10
Ebt	141	1,303	247	292	356	405	1,301	362	352	1,475
Income Tax	39	318	68	74	89	101	333	91	88	369
Net Income (C\$mm)	102	985	179	218	267	304	969	271	264	1,106
Shares (millions)	485	485	485	485	485	485	485	485	485	485
Earnings per share (C\$)	0.21	2.03	0.37	0.45	0.55	0.63	2.00	0.56	0.54	2.28
Ebitda Margin (E&P)	41%	54%	54%	51%	51%	51%	52%	51%	51%	51%
Tax Rate	28%	24%	27%	25%	25%	25%	26%	25%	25%	25%
Cash Flow (C\$mm)										
Net Income	102	985	179	218	267	304	969	271	264	1,106
Deprec., Deplet., & Amort.	93	403	122	103	103	103	431	103	103	412
Exchange on U.S. Debt	26	(25)					73			-
Deferred tax and other	27	228	(24)	(18)	(3)	9	(35)	(1)	(4)	1
Cash Flow from Operations	247	1,591	277	303	367	416	1,364	373	363	1,519
Capital Expenditures	292	1,086	268	369	321	321	1,279	320	320	1,282
Free Cash Flow	(45)	505	9	(66)	46	95	85	53	43	237
Cash Flow per share	0.51	3.28	0.57	0.71	0.76	0.86	2.81	0.77	0.75	3.13
Free Cash Flow per share	(0.09)	1.04	0.02	(0.14)	0.10	0.20	0.18	0.11	0.09	0.49
Dividend (C\$/share)	0.35	1.35	0.35	0.35	0.35	0.35	1.40	0.35	0.35	1.40



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