



Independent Stock Idea

November 25, 2011

rating: contrarian buy
s&p 500: 1171 intraday

Canadian Oil Sands Limited (COSWF) Dividend Obstacle Removed

<i>Symbol</i>	COSWF	<i>Ebitda Next Twelve Months ending 9/30/12 (US\$mm)</i>	2,710
<i>Rating</i>	Contrarian Buy	<i>North American Natural Gas/Ebitda (%)</i>	-4
<i>Price (US\$/share)</i>	18.42	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/25/11	<i>Adjusted Reserves/Production NTM</i>	26.5
<i>Shares (mm)</i>	485	<i>EV/Ebitda</i>	3.8
<i>Market Capitalization (US\$mm)</i>	8,900	<i>PV/Ebitda</i>	9.8
<i>Debt (US\$mm)</i>	1,500	<i>Probable Reserves (%)</i>	50
<i>Enterprise Value (EV) (US\$mm)</i>	10,400	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	62.36
<i>Present Value (PV) (US\$mm)</i>	26,700	<i>Present Value Proven and Probable Reserves(US\$/boe)</i>	16.80
<i>Net Present Value (US\$/share)</i>	52	<i>Ebitda Margin NTM (%)</i>	59
<i>Debt/Present Value</i>	0.06	<i>Earnings Next Twelve Months (US\$/share)</i>	3.34
<i>McDep Ratio - EV/PV</i>	0.39	<i>Price/Earnings Next Twelve Months</i>	6
<i>Dividend Yield (%/year)</i>	6.2	<i>Dividend Next Twelve Months (US\$/share)</i>	1.15
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\$100 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

Contrarian Buy **Canadian Oil Sands Limited (COSWF)** may soon revive its high income strategy now that co-owner **Imperial Oil (IMO)** has declared that Syncrude expansion “will likely not happen before the end of the decade”. As a result, the rationale to pay a low dividend in order to free capital to finance expansion no longer has much validity. While management has yet to comment, we point out that the income stocks in our coverage are priced at McDep Ratios near 1.0 while COSWF has sunk to a low McDep Ratio of 0.39, which we believe is unsustainable for a publicly traded company. Moreover, COSWF once was an income stock. Much of the stock price underperformance coincides with management backing away from what had been a winning style. Though prospects for volume growth of 50% or more for the rest of the decade seemed attractive, investors failed to give it positive recognition in stock price. Nor did we include the expansion in our estimated Net Present Value of US\$52 a share as illustrated in a reprint of a discounted cash flow calculation at the beginning of the year (see table on page 2 from *Independent Stock Idea*, **COSWF**, January 28, 2011). Our rationale was that new projects would add to NPV, but did not need to be included to justify an already high number. Imperial remains committed to further development of the Syncrude resource, but it believes that improving the reliability of existing operations should take priority, according to a company source quoted on *Bloomberg* after the market close on November 23. As management considers how to rebuild investor confidence, restoring the dividend to a \$C0.50 quarterly rate could readily be supported by our projections (see table on page 3). A C\$2.00 annual dividend would be a yield of 11% that would be reduced with stock price appreciation.

Kurt H. Wulff, CFA



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Canadian Oil Sands Trust												
Present Value of Future Cash Flow												
Nymex Crude (US\$/b):		100	PV/unit (US\$):		52	Discount rate (%/yr):		7.0				
Canadian Dollar/\$US		1.00				Nymex Nat Gas (\$/mmbtu)		8.00				
Year	Volume		Price (US\$/bbl)	Revenue (C\$mm)	Prod Cost (C\$/bbl)	Natural		Capital (C\$/bbl)	Royalty (C\$mm)	Cash Flow (C\$mm)	Disc Factor	Present Value (C\$mm)
	Syncrude (mmb)	Trust (mmb)				Gas	NonOper (C\$/bbl)					
Total 2011 through 2060; years ending on 12/31												
		2339		233600					29500	93400	0.28	26000
2011	314	42.2	90.71	3825	31.42	4.82	1.75	25.42	273	878	0.97	849
2012	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.90	1706
2013	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.84	1595
2014	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.79	1490
2015	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.74	1393
2016	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.69	1302
2017	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.64	1217
2018	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.60	1137
2019	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.56	1063
2020	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.53	993
2021	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.49	928
2022	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.46	867
2023	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.43	811
2024	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.40	758
2025	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.37	708
2026	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.35	662
2027	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.33	618
2028	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.31	578
2029	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.29	540
2030	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.27	505
2031	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.25	472
2032	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.23	441
2033	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.22	412
2034	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.20	385
2035	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.19	360
2036	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.18	336
2037	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.17	314
2038	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.16	294
2039	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.15	275
2040	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.14	257
2041	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.13	240
2042	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.12	224
2043	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.11	209
2044	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.10	196
2045	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.10	183
2046	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.09	171
2047	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.08	160
2048	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.08	149
2049	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.07	140
2050	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.07	130
2051	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.06	122
2052	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.06	114
2053	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.06	106
2054	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.05	100
2055	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.05	93
2056	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.05	87
2057	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.04	81
2058	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.04	76
2059	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.04	71
2060	350	46.9	100.00	4688	26.00	8.00	2.00	11.00	596	1888	0.04	66

Please see disclosures on the final page.



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Canadian Oil Sands Ltd.									
Next Twelve Months Dividend Estimates									
(Canadian Dollars)									
									<i>Next</i>
	<i>Q4</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>12/31/10</i>	<i>6/30/11</i>	<i>9/30/11</i>	<i>12/31/11</i>	<i>2011E</i>	<i>3/31/12</i>	<i>6/30/12</i>	<i>9/30/12</i>	<i>Months</i>
									<i>9/30/12</i>
Ebitda	410	589	539	568	2,239	809	669	793	2,839
Interest	21	15	11	(10)	30	8	8	8	14
Current Income Tax				10	10	10	10	10	40
Cash Flow Before Reinvestment	389	574	528	568	2,199	791	651	775	2,785
Non-Production Expense	24	25	28	41	127	41	38	40	160
Capital Expenditures	163	140	189	253	691	250	250	250	1,003
Free Cash Flow	202	409	311	274	1,381	500	363	485	1,622
Per Share									
Cash Flow Before Reinvestment	0.80	1.18	1.09	1.17	4.54	1.63	1.34	1.60	5.74
Free Cash Flow	0.42	0.84	0.64	0.57	2.85	1.03	0.75	1.00	3.34
Dividend	0.50	0.30	0.30	0.30	1.10	0.30	0.30	0.30	1.20

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