



Independent Stock Idea

December 8, 2011

rating: contrarian buy
s&p 500: 1244 intraday

Canadian Oil Sands Limited (COSWF) Dividend Upside in 2012

<i>Symbol</i>	COSWF	<i>Ebitda Next Twelve Months ending 12/31/12 (US\$mm)</i>	2,540
<i>Rating</i>	Contrarian Buy	<i>North American Natural Gas/Ebitda (%)</i>	-4
<i>Price (US\$/share)</i>	19.90	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	12/8/11	<i>Adjusted Reserves/Production NTM</i>	27.8
<i>Shares (mm)</i>	485	<i>EV/Ebitda</i>	4.4
<i>Market Capitalization (US\$mm)</i>	9,700	<i>PV/Ebitda</i>	10.5
<i>Debt (US\$mm)</i>	1,500	<i>Probable Reserves (%)</i>	50
<i>Enterprise Value (EV) (US\$mm)</i>	11,200	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	61.21
<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>	58
<i>Debt/Present Value</i>	0.06	<i>Earnings Next Twelve Months (US\$/share)</i>	3.14
<i>McDep Ratio - EV/PV</i>	0.42	<i>Price/Earnings Next Twelve Months</i>	6
<i>Dividend Yield (%/year)</i>	5.9	<i>Dividend Next Twelve Months (US\$/share)</i>	1.18
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

In a conference call today to discuss dividend policy and the 2012 budget, Chief Executive Marcel Coutu of Contrarian Buy **Canadian Oil Sands Limited (COSWF)** emphasized that the dividend would be increased from the current C\$1.20 annual rate if oil price exceeds US\$85 a barrel. Applying the sensitivity estimate provided in Management's Guidance document, cash flow would increase by C\$1.05 a share if recent futures price of US\$100 a barrel materialize as the actual average for 2012. Perhaps not all of that would be applied to the dividend as the newly released 2012 Budget contemplates larger capital expenditures than previously indicated. At the same time expectations for capital expenditures in the period 2013-2020 are much less than previously expected. The Syncrude owners will focus on achieving full capacity of current operations before launching more expansion. Applying the sensitivity estimate provided in Management's Guidance document, cash flow would increase by a further C\$1.65 a share if Syncrude could operate at full capacity rather than at 88% estimated for 2012 (see table [2012 Budget and Guidance](#) on page 2). We incorporate practically all of the guidance in our new model except that we use recent futures prices rather than US\$85 in management's outlook (see [Next Twelve Months Dividend Estimates](#) on page 2 and [Next Twelve Months Operating and Financial Estimates](#) on page 3). Confusion over dividend policy and persisting operating challenges have depressed the price of COSWF inordinately in our opinion. The current yield of 5.9% is attractive by itself and we think the prospects for dividend growth are strong for patient investors.

Kurt H. Wulff, CFA



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Canadian Oil Sands Ltd.			
2012 Budget and Guidance			
(Canadian Dollars)			
	<i>Outlook</i>	<i>Recent Oil Price</i>	<i>Design Capacity</i>
WTI Oil Price (US\$/bbl)	85	100	100
Syncrude Volume			
Million barrels	113	113	128
Thousand barrels daily	309	309	350
Cash Flow from Operations (C\$/sh)	3.56	4.61	6.26
Capital Expenditures (C\$/sh)	3.01	3.01	3.01
Free Cash Flow (C\$/sh)	0.55	1.60	3.25
Dividend (C\$/sh)	1.20	1.20	1.20

Note: Increases in cash flow calculated by simple application of sensitivity factors. The factors are illustrative and may not apply accurately when combined over the full range.

Canadian Oil Sands Ltd.									
Next Twelve Months Dividend Estimates									
(Canadian Dollars)									
	<i>Q4</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Next Twelve Months</i>
	<i>12/31/10</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>12/31/12</i>	<i>12/31/12</i>
Ebitda	410	539	504	2,175	651	613	669	660	2,592
Interest	21	11	(10)	30	-	-	-	-	-
Current Income Tax			10	10	91	85	94	93	363
Cash Flow Before Reinvestment	389	528	504	2,135	559	528	574	567	2,229
Non-Production Expense	24	28	41	127	37	37	37	37	146
Capital Expenditures	163	189	253	691	365	365	365	365	1,460
Free Cash Flow	202	311	210	1,317	158	127	173	165	623
Per Share									
Cash Flow Before Reinvestment	0.80	1.09	1.04	4.40	1.15	1.09	1.18	1.17	4.60
Free Cash Flow	0.42	0.64	0.43	2.72	0.33	0.26	0.36	0.34	1.28
Dividend	0.50	0.30	0.30	1.10	0.30	0.30	0.30	0.30	1.20



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Canadian Oil Sands Ltd.									
Next Twelve Months Operating and Financial Estimates									
(Canadian Dollars)									
									<i>Next Twelve Months</i>
	<i>Q4</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>12/31/12</i>
	<i>12/31/10</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>12/31/12</i>	<i>12/31/12</i>
Volume									
Syncrude (mmb)	29.0	27.5	23.7	105.8	28.0	27.0	29.0	29.0	113.0
Syncrude (mbd)	316	299	258	290	308	297	315	315	309
Days	92	92	92	365	91	91	92	92	366
Company share (%)	36.4	36.5	42.5	38.2	36.7	36.7	36.7	36.7	36.7
Company Oil (mmb)	10.56	10.05	10.09	40.4	10.29	9.92	10.65	10.65	41.5
Company Oil (mbd)	114.7	109.3	109.7	110.7	113.0	109.0	115.8	109.7	113.4
Price									
WTI Cushing (US\$/bbl)	85.10	89.76	94.86	95.32	101.14	101.23	100.48	99.61	100.62
Currency (US\$/C\$)	0.99	1.02	0.98	1.01	0.98	0.98	0.98	0.98	0.98
WTI Cushing (C\$/bbl)	86.13	87.94	96.75	94.16	103.15	103.25	102.48	101.59	102.62
Differential	(2.16)	9.95	4.84	6.38	5.16	5.16	5.12	4.08	4.86
Company Oil Price (C\$/bbl)	83.97	97.89	101.59	100.55	108.31	108.41	107.60	105.67	107.48
Henry Hub Nat Gas (US\$/mm)	3.80	4.19	3.55	4.04	3.49	3.59	3.71	3.96	3.69
Henry Hub Nat Gas (C\$/mmb)	3.85	4.11	3.62	3.99	3.56	3.66	3.78	4.04	3.76
AECO Natural Gas (C\$/GJ)	3.45	3.51	3.09	3.45	3.04	3.13	3.23	3.45	3.21
Revenue (C\$mm)	886	984	1,025	4,061	1,114	1,075	1,146	1,126	4,462
Expense (C\$mm)									
Production	340	324	394	1,347	338	338	338	338	1,353
Purchased Energy	54	50	40	195	36	35	50	40	161
Crown Royalties	75	65	76	310	81	80	81	79	321
Insurance	1	2	2	8	2	2	2	2	9
Administration	6	4	9	26	7	7	7	7	26
Total	476	445	521	1,886	464	463	478	466	1,870
Ebitda	410	539	504	2,175	651	613	669	660	2,592
Deprec., Deplet., & Amort.	88	93	93	378	93	93	93	93	372
Non-Production	24	28	41	127	37	37	37	37	146
Exchange on U.S. Debt	(35)	75							
Other	3	(6)							
Ebit	331	349	370	1,639	521	483	539	530	2,074
Interest	21	11	(10)	30					-
Ebt		338	380	1,609	521	483	539	530	2,074
Income Tax		95	99	416	130	121	135	133	518
Net Income (C\$mm)	310	243	281	1,193	391	363	404	398	1,555
Shares (millions)	484	485	485	485	485	485	485	485	485
Earnings per share (C\$)	0.64	0.50	0.58	2.46	0.81	0.75	0.83	0.82	3.21
Ebitda Margin (E&P)	46%	55%	49%	54%	58%	57%	58%	59%	58%
Tax Rate		28%	26%		25%	25%	25%	25%	25%



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