



A Closer Look at Canadian Oil Sands' Quarter

Description

By Dave Van Geem

Syncrude is a joint venture project located on the Athabasca oil sands deposit in Alberta. The partners include **Canadian Oil Sands** (TSX:COS), **Imperial Oil**, **Murphy Oil**, **Mocal Energy**, **Nexen**, **Sinopec**, and **Suncor Energy**.

Canadian Oil Sands reported third-quarter earnings last Wednesday. Let's take a closer look.

Earnings

The stock is currently yielding 6.89% on a dividend of \$1.40. After the market close on Wednesday, the company reported the following results:

COS Financial Highlights	Three Months Ended Sept. 30, 2013	Three Months Ended Sept. 30, 2012	Nine Months Ended Sept. 30, 2013	Nine Months Ended Sept. 30, 2012
Cash flow from operations (\$ millions)	\$339	\$470	\$957	\$1,163
<i>Per Share (\$/Share)</i>	\$0.70	\$0.94	\$1.97	\$2.40
Net Income (\$ millions)	\$246	\$336	\$642	\$755
<i>Per Share Basic and Diluted (\$/Share)</i>	\$0.51	\$0.69	\$1.32	\$1.56
Sales Volumes — Total (mmbbls)	7.8	10.4	25.5	28.4
Sales Volumes — Daily Average (bbls)	84,250	113,331	93,301	103,669

Realized SCO selling price (\$/bbl)	\$112.55	\$89.89	\$102.83	\$92.59
West Texas Intermediate (Avg. \$US/bbl)	\$105.81	\$92.20	\$98.20	\$96.16
SCO Premium (discount) to WTI (weighted avg \$/bbl)	\$2.51	\$(2.09)	\$2.74	\$(4.32)
Operating expenses (\$ millions)	\$357	\$377	\$1,106	\$1,107
Per barrel (\$/bbl)	\$46.15	\$36.07	\$43.43	\$38.96
Capital expenditures (\$ millions)	\$413	\$354	\$1,050	\$787
Dividends (\$ millions)	\$170	\$170	\$509	\$485
Per Share (\$/Share)	\$0.35	\$0.35	\$1.05	\$1.00

Source: Canadian Oil Sands Q3 Quarterly Reports

Canadian Oil Sands announced it has maintained its quarterly dividend at \$0.35 per share, payable Nov. 29 to shareholders of record Nov. 22, 2013. Operating expenses overall fell slightly but rose per barrel proportionately to \$46.15, largely as a result of falling sales and production volumes.

Production

Full-year production estimates were trimmed down yet again to 97-100 million barrels for the full year. Fingers quickly pointed to the now infamous Coker 8-1 unit, along with the LC Finer and hydrotreating units. Here's a quick recap of some production updates over the past 12 months:

- **Q2 2013:** "COS has reduced its Syncrude production estimate to 100 to 104 million barrels for 2013."
- **Q1 2013:** "We now estimate an annual production range for Syncrude of 100 million to 110 million barrels in 2013," down from estimates 90 days earlier of 105-115 million barrels.
- **Q4 2012:** Annual Report: "Production in the 2012 fourth quarter mainly reflects unplanned outages in mine trains, which limited bitumen production." Also: "In 2012 Syncrude production averaged about 286,500 barrels per day (104.9 million barrels total) compared with about 288,400 barrels per day (105.3 million barrels total) in 2011."

A faint pattern may just be starting to emerge here ...

Outgoing CEO Marcel Coutu remarked, "It has been a particularly challenging year for Syncrude operations with maintenance issues in our extraction facilities and an extended coker turnaround in the third quarter. Syncrude is continuing to work through the implementation of reliability systems, and improving reliability remains ours and Syncrude's main focus."

Capital expenditures

Canadian Oil Sands has undertaken a number of multiyear capital projects. At the end of the third,

quarter, management reported the following:

Project	Total Cost Estimate (\$Billion)	Estimate Complete Q3 2013	In-Service Target Date
Mildred Lake Mine Train Replacement	\$1.60	65% (+10%)	Q4 2014
Aurora North Mine Train Relocation	\$0.40	100%	n/a
Aurora North Tailings Management	\$0.30	95% (+5%)	Q4 2013
Centrifuge Tailings Management	\$0.70	50% (+25%)	H1 2015

Source: COS Q3 Statements, estimate complete vs. COS Q2 Statements

The company has done yeoman's work here completing the Aurora North train relocation project and looks on track to close the Aurora North tailings project before the end of the year.

Said the company's CEO: "We reached an important milestone with the completion of Syncrude's Aurora North Mine Train Relocation project ahead of schedule and under budget. The remaining projects are also progressing well and tracking to plan."

The bottom line

Canadian Oil Sands is in the midst of three expensive capital refurbishment projects, fighting declining production volumes, and what can only be called an unplanned retirement by the president and CEO. The surprise announcement that Marcel Coutu was stepping down came last quarter, at the same time, the company announced that a search for a replacement would begin.

Weighing in to mitigate these risks we have high crude prices and a government that is showing continued focus on reliving transportation bottlenecks on a macroeconomic level. At the micro level, we have a company that generated a staggering \$339 million in cash in the past 90 days, while closing one of four capital projects was a clear win — ahead of schedule and under budget. There's also a nice 6%+ yield.

Full disclosure here: I'm a shareholder, but I'm not rushing out to buy more at this point (unless you count dividend reinvestment). The cash Canadian Oil Sands generates is plowed back into the business for badly needed capital reinvestment, evidenced by four quarters of missed production targets. This stock joins [Davis + Henderson](#) on my watchlist while we wait for a catalyst.

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Disclosure: As mentioned, Dave Van Geem owns shares of Canadian Oil Sands as part of a diversified portfolio.

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