Investor Alert: Coker Shutdown Could Threaten Canadian Oil Sands' Earnings

Description

Canadian Oil Sands (TSX: COS) is set to publish its quarterly earnings report on Wednesday. Thanks to improving prices for Alberta bitumen, the street is generally optimistic on the company's prospects. However, production outages at the firm's mammoth Syncrude project could put a damper on the quarter.

Let's take a look at what has been happening at Canadian Oil Sands over the past three months and what we're likely to see in the upcoming report.

Stats on Canadian Oil Sands

Analyst EPS Estimate	$0.41
Change From Year Ago EPS	$0.45
Revenue Estimate	$875.58M
Change From Year Ago Revenue	-4.99%
Earnings Beats in Past 4 Quarters	1

Source: Reuters

Will Canadian Oil Sands disappoint investors this quarter?

Analysts haven't made any major changes to their calls on Canadian Oil Sands over the past three months, reducing their consensus earnings per share estimate by just a penny to $0.41 per share. Thanks to improving conditions in the Alberta oil sands, the stock has staged a major rally up 16% since the start of the year.

Unfortunately, problems at Canadian Oil Sand's Syncrude mine, of which the company is the largest owner, threatens to put a cloud over an otherwise strong quarter. Last week the firm announced that a Syncrude coker is undergoing 'unplanned maintenance', industry slang for equipment that is acting up. Company representatives are not saying how long they expect the facility to be out of commission.

Cokers are part of the upgrading process for turning raw bitumen into lighter oil. However, repairing the unit will require shutting down a large part of operations at the facility. In the past, similar problems have typically take 30 days to repair. Though at times, coker maintenance has stretched out for months.

Canadian Oil Sands won't be the only company impacted by this bad news. **Imperial Oil** (TSX: IMO) and **Suncor** (TSX: SU)(NYSE: SU) each hold 25% and 12% stakes in the Syncrude project respectively. However, these companies won't be as hard hit by the shut-down as they have extensive operations elsewhere.

This problem is made worse by the fact that Syncrude's other coker is scheduled to go offline for planned maintenance later this month. Canadian Oil Sands now projects Syncrude to produce between 95 million and 105 million barrels of synthetic crude in 2014, down from a previous estimate of 95 million to 110 million barrels.

For investors, the question is whether the recent drop represents a buying opportunity. Unplanned outages are a normal part of this business and investors tend to overreact to such short-term noise. Syncrude has an estimated lifespan of 35 years, and the latest problems are likely a temporary bump in the road.

Looking beyond this current hurdle, Canadian Oil Sands' prospects look particularly bright. Much of the capital investment in Syncrude has already been made. The task for the firm's new Chief Executive Ryan Kubik is to milk the current project for all it's worth and deliver steady stream of dividend hikes and share buybacks to investors.

Foolish bottom line

In Canadian Oil Sands' upcoming earnings report, investors will want to know how long the company needs to repair this damaged coker. After the stock's 4% selloff on Friday, the market has already priced in production to be offline for a month. However, further delays could send shares reeling once again.

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rbaillieul