4 Reasons to Add Canadian Oil Sands Ltd. to Your Portfolio

Description

The last month hasn't been kind to **Canadian Oil Sands Ltd.** (TSX: COS).

This has a lot to do with the price of crude oil, of course. After hitting a high of nearly $110 back in the latter part of May, the commodity has been on a steady ride down. It closed at a little over $92 on Friday.

Besides feeling the pressure on commodity prices, the company has also had some operational issues. It spent more than $1.5 billion in capital expenditures over the last two years, on upgrading the Mildred Lake mine train and centrifuge tailings management. These are both key parts in the production process of turning shale oil into a product that can be refined.

Besides, the company isn't really growing. Sure, it keeps production steady at approximately 275,000 barrels of oil per day, but it doesn't have much in the way of growth potential. As the price of oil has continued to weaken, investors are more inclined to take a look at **Suncor Energy Inc.** (TSX: SU)(NYSE: SU) or **Cenovus Energy Inc.** (TSX: CVE)(NYSE: CVE), both companies with significant oil sands expansion projects coming online in the next couple years.

Even though things aren't looking good, I'm still a long-term believer. Here are four reasons why investors should buy the stock at these low levels.

1. The lovely dividend

Dividend investors have to be at least a little excited about Canadian Oil Sands' 6.7% dividend.

It's a safe dividend, too. The company currently projects 2014's cash flow from operations to be $2.46 per share. The current dividend is $1.40 per share. Even if the projected cash flow goes down — and it might, based on whether oil prices head lower — there's still plenty of wiggle room to ensure dividends keep coming while maintaining the company's balance sheet.

2. Capex expenses are largely behind it

As previously mentioned, Canadian Oil Sands spent a lot of money in capex over the last two years. Most of this was financed using cash on hand.

Both projects are almost completed, and look to have cost about what was originally expected. That means that capex is about to drop dramatically, from $900 million in 2013 to $600 million in 2014 and then down to less than $200 million in 2015. This frees up capital for paying down debt, increasing the dividend, or just for more cash on hand.

3. Great reserves

Most oil companies have to constantly be on the hunt for more reserves, since they very rarely have more than a decade's worth on hand. Not Canadian Oil Sands.

Based on current production, the company has reserves capable of sustaining production for another 23 years, and that's without expanding operations at all. If we count the undeveloped reserves and the contingent resources — that is, oil it figures it has a good chance of recovering down the road — and we get nearly a century's worth of oil in the ground, just waiting to be extracted.

4. Pure oil sands play

Suncor is often the first name investors think of when considering an investment in the oil sands. It makes sense, since it's the biggest producer in the area.

But Suncor has operations in other areas, including conventional oil production in Alberta, both onshore and offshore production in eastern Canada, and production in Europe. It also has renewable energy assets, a large refinery and downstream business, and a decent-sized lubricants business. All in all, just 70% of its production is in the oil sands, not even factoring in its other businesses.

Suncor is a great choice if investors are looking for a diversified oil company, but not if they're looking for a pure oil sands play. There's only one choice for that, and it's Canadian Oil Sands.

The oil sands are a terrific asset, and Canadian Oil Sands is a great company. Investors should take advantage of this weakness and start accumulating shares. I'm confident it'll end up being a great long-term investment.

CATEGORY

1. Investing

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2. NYSE:SU (Suncor Energy Inc.)
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