



## Looking for Income? Check Out Canadian Oil Sands Ltd. and Its 6.8% Yield

### Description

Thanks to a decline in oil prices, shareholders in **Canadian Oil Sands Ltd.** (TSX: COS) have not had a good month. Since Labour Day, shares are down nearly 12%.

Even the past year hasn't been great for the oil sands giant. It has spent extensively on capex projects, dropping nearly \$1.5 billion in repairs and maintenance on two of its major upgraders. While crucial to converting thick bitumen to more lucrative light sweet oil, these expensive upgrades have significantly cut into cash available for distribution. These repairs all but depleted the company's cash, but at least it has been able to finance these repairs internally.

Now that the stock has sold off, shares yield a very impressive 6.8%. In today's world of anemic bond yields and lack of dependable higher-yield choices, does the company and its generous dividend have a spot in your portfolio? I'd say it does. Here are three important reasons why you should buy.

#### 1. Light sweet crude

Over the last few years, one thing that has held back many oil sands producers is the price difference between Western Canadian Select and West Texas Intermediate. Without getting into too many details, the difference is simple. WCS is a heavy oil, while WTI is light crude. Heavy oil is much more difficult to refine, so it commands a lower price. Depending on market conditions, this gap can be anywhere from \$10 to \$40 per barrel.

Canadian Oil Sands doesn't have to worry about that. It upgrades each barrel of bitumen into light sweet crude, thus avoiding the painful times when the price between WCS and WTI widens significantly. This leads to more consistent cash flow, which ultimately protects the generous dividend.

#### 2. Pure oil sands exposure

There are huge advantages to being 100% exposed to the oil sands.

First of all, the company becomes the go-to name whenever investors are looking for exposure to the area. Sure, **Suncor Energy Inc.** ([TSX: SU](#))([NYSE: SU](#)) might be the largest producer in the area, but it

still only gets about 70% of its oil production from the oil sands. And that's not mentioning its downstream business, which also distracts from it being a pure oil sands producer. Depending on how bullish investors are about the oil sands, this diversification can be viewed as a positive or a negative.

The biggest advantage to being a full oil sands producer is probably the reserve life. Based on just what the company has found to date, it controls nearly four decades' worth of oil, just waiting to be pulled out of the ground. If you add in what the company calls contingent reserves (essentially, oil that is likely there), and there's close to a century's worth of reserves. These huge reserves are a big advantage compared to other oil producers.

### 3. Near 52-week lows

There are two parts of the equation when it comes to a successful investment. You have to buy a good company but also at a fair price.

Now that Canadian Oil Sands is trading within a few percentage points of its 52-week low, this looks like a good time to buy. Since 2012, the stock has bounced between \$20 and \$25. Investors who got in at \$20 enjoyed a yield of 7%, and could always exit as it approached \$25.

Besides, the worries about the price of crude declining are overstated, considering how a weakening Canadian dollar is helping to make up for that difference. We know the market isn't entirely rational, which is why this is an attractive entry point. If investors buy now and hold for the long term, I think they'll be satisfied.

#### CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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#### Date

2025/09/18

#### Date Created

2014/10/01

#### Author

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