Why Canadian Oil Sands Ltd. Investors Should Brace for Another Dividend Cut

Description

Flash back to December 3, a dark day for **Canadian Oil Sands Ltd.** (TSX:COS) investors. The operator of the Syncrude oil sands mine cut its quarterly dividend from 35 cents per share to 20 cents per share, and also released its outlook for 2015.

Since then, there have been concerns that the dividend will be cut again. After all, oil prices have continued to slide, making it that much harder for the company to afford its new payout. Canadian Oil Sands's share price has also declined. As a result, the dividend yields 10%, the highest of any **S&P/TSX 60** company.

So is another dividend cut coming? And with the shares down so much, should you buy the stock? Below we take a look.

The 2015 outlook

Curiously, Canadian Oil Sands has provided no update to its 2015 outlook, even though conditions have changed dramatically. But that document still offers some good clues about where the company stands today.

In early December, Canadian Oil Sands was projecting 2015 cash flow from operations to total $730 million, or $1.51 per share. But that was based on a US$75 per barrel oil price. Fortunately, the document also shows the company's sensitivities to a weaker oil price. So if we assume US$50 oil, and a $0.83 Canadian dollar, Canadian Oil Sands would generate only about $170 million in 2015.

Making matters worse, these numbers do not include $564 million in investment spending for 2015, including $425 million for regular maintenance. And at last count, the company had only $150 million in cash.

So just from using the company's own numbers, as well as current oil prices, Canadian Oil Sands will have to raise more money this year.

So where does the dividend fit in?

Based on the most recent share count, Canadian Oil Sands is set to pay nearly $400 million in dividends in 2015, even after the cut in December.

To be fair to management, it has been dealt a losing hand. And it is likely waiting to see when oil prices reach a bottom. After all, no one wants to release updated guidance (as well as a dividend cut) every week as oil prices continue to fall.

But I have a suggestion for what the company’s dividend should be set to: $0. And the sooner management does this, the better.

So should you buy the stock?

This is a very dangerous stock to own. Remember, the last time Canadian Oil Sands cut its dividend, the shares fell 16%. Making matters worse, this is a company that burns cash with oil at US$50 per barrel. Its balance sheet also leaves much to be desired.

So for these reasons, I would stay on the sidelines. The stock will take off if oil prices recover, but that looks to be a long time off.

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1. Energy Stocks
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Date
2025/07/22
Date Created
2015/01/23
Author
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