



Could Canadian Oil Sands Ltd Go Bankrupt?

Description

If you want to find one of the worst performing stocks out there over the past five years, then look no further than **Canadian Oil Sands Ltd** (TSX:COS). The stock has crashed over 71% over the past five years, and is currently trading below \$10 per share, well below the all-time high of more than \$50 per share set back in 2008.*

Unfortunately, many analysts don't think the stock will perform much better in the future.

Canadian Oil Sands' struggles

Canadian Oil Sands has underperformed for years, and the latest crash in oil prices has exacerbated this underperformance. The stock is down an astonishing 37% this year alone. The fall in oil prices has hit the company, in the fourth quarter of 2014, lower oil prices contributed to the company's profit declining by 87% year-over-year. Cash flow, which is an important indicator to see if the company can pay its bills, declined 47% versus the comparable quarter.

Is bankruptcy imminent?

While the company's plunge in share value and the financial struggles are unnerving, at this point they by no means indicate that the company will go bankrupt. Before a company declares bankruptcy, it usually has fallen deep in debt, has exhausted available cash (even by credit) and sees a means to become profitable in the future. Canadian Oil Sands is far from this position.

Lower capital expenditures

Even with declining revenues and cash flow, Canadian Oil Sands has the ability to cut costs to survive. In its latest earnings report Canadian Oil Sands said that it had identified potential savings of \$260-400 million, which would equal about 10-15% in operating, development, and capital costs. Two recent dividend cuts will also reduce costs. The latest dividend cut took the company's dividend down to \$0.05 per share, down from \$0.20 per share. The dividend was also cut in December.

Canadian Oil Sands once again has reduced its 2015 capital budget to \$451 million, down from \$564

million, and well below estimated \$1.1 billion spent in 2014.

In sum

Canadian Oil Sands' recent performance is disconcerting, but thinking that bankruptcy is imminent is a dramatic, and unlikely conclusion. In fact, with the low price of oil making cost cuts necessary, I think Canadian Oil Sands is actually positioning itself for a better future. Oil prices are cyclical, and they will go up. If Canadian Oil Sands can turn a profit (even a slim one) when prices are low, it will really thrive when prices start to rebound.

*The original version of this post had some erroneous pricing information. We apologize for any confusion this may have caused.

CATEGORY

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2. Metals and Mining Stocks

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