



## After Yet Another Dividend Cut, Should You Buy Canadian Oil Sands Ltd.?

### Description

It was only a couple of months back when I [originally predicted](#) that **Canadian Oil Sands Ltd.** (TSX:COS) would have to cut its dividend yet again, because of markedly lower crude prices and insufficient free cash flow to meet the already adjusted dividend. Canadian Oil Sands has now slashed this adjusted dividend by 75% to a mere \$0.2 per share annually, giving it a moderate 2.8% dividend yield. These dividend cuts coupled with the rout in crude prices have caused Canadian Oil Sands' share price plunge a whopping 64% over the last three months.

In spite of the pessimistic outlook surrounding crude prices and the ongoing operational issues being experienced by Canadian Oil Sands, some analysts are starting to warm to the company.

### So what?

This is because Canadian Oil Sands holds the largest single interest in the Syncrude project, giving it long-life oil reserves of 1.5 billion barrels of crude. After allowing for the rout in oil prices and using an assumed average price for West Texas Intermediate or WTI of US\$60 per barrel, these reserves have a value of around \$5.7 billion after royalties and income taxes. This equates to \$11.70 per share or a 6% premium over Canadian Oil Sands current share price.

Obviously, this doesn't factor in the risks associated with developing those oil reserves and producing oil from them. But it is a good indicator of how disconnected share prices in the energy patch have become from asset values because of fears over the direction of crude prices. Furthermore, if oil prices rebound to above US\$75 per barrel, Canadian Oil Sands would see a marked increase in its cash flow giving its shares a significant lift over their current price.

However, Canadian Oil Sands also needs to successfully resolve many of the issues that have triggered unexpected production outages at the Syncrude project in recent years. These not only have disrupted production, but also led to unexpected costs that continue to eat into its cash flow and earnings.

Finally, a number of energy analysts are expecting crude prices to rebound later this year or in early 2016, and while I believe this is somewhat optimistic, they will certainly rebound in the foreseeable

future. You see global demand for energy over the long-term can only increase as emerging economies such as India and those in southeast Asia modernise.

Not to mention, the European Central Bank's stimulus program for the Eurozone and the introduction of further economic stimulus in China that will boost economic activity in two of the world's largest economies. This will drive greater demand for crude and help to alleviate the supply glut we are now seeing. Each of these factors accord with the international Energy Agency's view that demand for crude will grow significantly between now and 2020.

### **Now what?**

In the past, I have been critical of Canadian Oil Sands, having recommended that investors [avoid the company](#) because of unexpected production outages, rising costs, and declining cash flow. However, with its share price now having more than halved in just over three months combined with it trading at substantial discount to the value of its oil reserves, there is certainly value for patient, long-term investors willing to wait for a rebound in oil prices. But it is certainly not a stock I would invest in solely for its short-term outlook or yield.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **Category**

1. Energy Stocks
2. Investing

### **Date**

2025/10/02

### **Date Created**

2015/02/03

### **Author**

mattsmith

default watermark

**default watermark**