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Should You Buy, Sell, or Hold Canadian Oil Sands Ltd. Today?

Description

Canadian Oil Sands Ltd. (TSX:COS), the company with a 36.74% ownership interest in the Syncrude oil sands project, announced fourth-quarter earnings after the market closed on January 29 and its stock responded by rising over 20% in the trading session that followed. Let's take a closer look at the quarterly results and the company's outlook going forward to determine if we should consider buying into this rally or if we should wait for a better entry point in the weeks ahead instead.

Breaking down the quarterly results

Here's a breakdown of COS's fourth-quarter earnings compared to its results in the same period a year ago.

Metric	**Q4 2014**	**Q4 2013**
Earnings per share	$0.05	$0.40
Cash flows from operations	$207 million	$391 million

Canadian Oil Sands' earnings per share decreased 87.5% and its cash flows from operations decreased 88.9% compared to the fourth quarter of fiscal 2013, as its net income decreased 87% to $25 million, its average daily sales volume decreased 3.5% to 108,139 barrels, and its realized selling price per synthetic crude oil barrel decreased 11.1% to $81.32.

The company's weak earnings per share results can also be attributed to operating expenses increasing 12.9% to $438 million and its operating expenses per barrel increasing 17.1% to $44.04, primarily due to additional maintenance costs associated with unplanned outages for upgrading units, as well as higher natural gas and diesel costs.

Here's a quick summary of five other notable statistics and updates from the report compared to the year-ago period:

1. Syncrude operations produced 26.9 million barrels, or 292,600 barrels per day, compared to 28.3 million barrels, or 307,600 barrels per day, in the year-ago period

2. Average foreign exchange rate ($USD/$CDN) decreased 7.4% to $0.88
3. Capital expenditures decreased 41.8% to $170 million
4. Paid out a quarterly dividend of $0.35 per share for a total cost of approximately $169 million
5. Announced an 85.7% reduction in its quarterly dividend to $0.05 per share for the first quarter of fiscal 2015, and the payment will come on February 27 to shareholders of record at the close of business on February 20

Lastly, Canadian Oil Sands revised its outlook on fiscal 2015, calling for the following performance:

- Syncrude production to range from 95 million-110 million barrels
- WTI crude oil price estimate of US$55 per barrel
- Operating expenses of approximately $40 per barrel
- Crown royalties of approximately $119 million
- Cash flow from operations of approximately $368 million, or $0.76 per share

Was the 20% rally warranted?

Canadian Oil Sands' fourth-quarter results were very weak and its outlook going forward does not call for much improvement. Furthermore, the significant reduction in its quarterly dividend takes away the primary reason for owning its shares, so for these reasons, I do not think the 20% rally in its shares was warranted. With all of this information in mind, I think investors should avoid buying shares of Canadian Oil Sands today and instead wait to a substantial pullback or a positive press release before reconsidering.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
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