



## Canadian Oil Sands Ltd. Shapes Up as an Attractive Investment

### Description

I have been critical of **Canadian Oil Sands Ltd.** (TSX:COS), the holder of the largest single interest in the Syncrude project for some time. My critical view is based on the grounds of overly optimistic forecasts, production outages, and cost blowouts in the project. However, since its share price hit a 52-week low of \$6.01 after being hammered by the market for revising its 2015 guidance and cutting its dividend a second time, I have changed my view.

### So what?

It appears that the oil rout was the catalyst required for investors in the Syncrude project to take a hard look at making the operation more reliable and efficient. That effort has already generated between \$260 million-\$400 million in cost savings for Canadian Oil Sands. This will have a positive impact on its bottom line.

More importantly, the company has used an assumed price of US\$55 per barrel for West Texas Intermediate (WTI) as the basis for its revised guidance. This guidance has been the basis for Canadian Oil Sands slashing its dividend again and further cutting expenditure. This means that even a modest increase in the price of WTI has the potential to significantly boost cash flow because of the levered nature of Canadian Oil Sands' operations, which would ultimately boost its share price.

I believe higher crude prices in the medium term are inevitable, because the U.S. rig count continues to fall as oil producers shutter further uneconomic production. Meanwhile, OPEC appreciates the folly of keeping prices artificially low. This is having a negative impact its members' economies and the International Energy Agency (IEA) expects global demand for crude to grow over the long term.

Another driver of Canadian Oil Sands' share price is the value of its underlying oil assets, with oil reserves totaling 1.7 billion barrels. When using an assumed price for WTI of US\$55 per barrel, they have a value of around \$12 per share after royalties and taxes. This is marginally higher than its share price and highlights that the market doesn't appreciate the intrinsic value of the company. Just as in the case of cash flow, when WTI rebounds, the value of these assets will also appreciate, boosting its share price.

The crash in Canadian Oil Sands' share price in late January created speculation that it would become a takeover target, with one of the other partners in the Syncrude project, **Imperial Oil Ltd.**, the most likely suitor, although it has remained silent on the subject.

However, Canadian Oil Sands' parent company, **Exxon Mobil Corp.**, has signaled that it is seeking to make accretive acquisitions while oil asset prices remain low.

### **Now what?**

The costs savings, coupled with the intrinsic value of its oil reserves and its potential as a takeover target, make Canadian Oil Sands an attractive play at this time, and even more so if crude rallies or a takeover emerges.

### **CATEGORY**

1. Energy Stocks
2. Investing

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