



## Will Canadian Oil Sands Ltd.'s Share Price Plunge to New Lows?

### Description

One time favourite among dividend investors **Canadian Oil Sands Ltd.** (TSX:COS) saw its share price touch a 52-week low of \$6.01 per share after it slashed its dividend for a second time this year because of the oil rout. It then sharply rebounded on the back of rumours that said it had become a takeover target, but the company now finds its share price on a roller coaster ride because of the unpredictable outlook for crude. With the price of West Texas Intermediate (WTI) plunging below US\$50 per barrel again, could shares be headed back to \$6?

### Now what?

Canadian Oil Sands holds the largest single interest in the Syncrude oil sands project. Over the last year Syncrude has been plagued by operational failures, production outages, and cost blowouts that can be attributed to the complex machinery required to convert bitumen to light sweet synthetic crude.

This has weighed heavily on Canadian Oil Sands' performance and caused operating expenses to rise by 17% to be almost \$49 per barrel, and full year 2014 oil production to drop by 3% compared to 2013.

After applying the exchange rate for the Canadian dollar, these operating expenses are only marginally lower than the current price for WTI of US\$46 per barrel. This indicates that Canadian Oil Sands' share of Syncrude production will remain unprofitable with these operating expenses, not including general and administrative costs or finance expenses.

Another concern is that in its revised 2015 guidance Canadian Oil Sands used an average annual forecast price for WTI of US\$55 per barrel, which is 20% higher than the current market price.

While a number of industry insiders are claiming the price of WTI will rebound to over US\$55 per barrel in 2015, it is difficult to see this happening based on current data. Despite U.S. rig counts continuing to fall, U.S. crude production continues to grow, with oil producers focused on shutting down high-cost, low-production rigs. U.S. crude inventories are at their highest level in 80 years and analysts expect them to climb further, placing ever greater pressure on the price of WTI as the global supply glut continues.

Any further decline in crude prices will have a significant impact on Canadian Oil Sands' cash flow.

Based on Canadian Oil Sands' guidance, if WTI averages US\$45 per barrel for 2015, then cash flow from operations will fall by \$290 million to be \$78 million. This is significantly lower than planned capital expenditures of \$451 million, and leaves no free cash flow to cover the revised dividend of \$0.05 per share.

### **So what?**

Canadian Oil Sands is under considerable pressure in the current operating environment, particularly with the unpredictable nature of production at Syncrude. The history of production outages and cost blowouts does not bode well for its ability to meet production and cash flow forecasts for the year, and could be worsened by the WTI falling further than forecast. As a result, I expect to see its share price come under further pressure, and I would not be surprised if the company suspended its dividend altogether.

### **CATEGORY**

1. Energy Stocks
2. Investing

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### **Date**

2025/10/02

### **Date Created**

2015/03/23

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