



Is Canadian Oil Sands Ltd. a Turnaround Play or a Sinking Ship?

Description

Canadian Oil Sands Ltd. (TSX:COS), the company with a 36.74% ownership interest in the Syncrude oil sands project, announced second-quarter earnings results after the market closed on July 30, and its stock responded by falling over 2% in the trading session that followed. Let's take a closer look at the results to determine if the weakness could continue, or if we should use it as a long-term buying opportunity.

A disappointing quarterly performance

Here's a summary of Canadian Oil Sands's second-quarter earnings results compared with its results in the same period a year ago.

Metric	Q2 2015	Q2 2014
Earnings per share	(\$0.26)	\$0.36
Revenue, Net of Royalties	\$587 million	\$900 million

Source: Canadian Oil Sands Ltd.

In the second quarter of fiscal 2015, Canadian Oil Sands reported a net loss of \$128 million, or \$0.26 per share, compared to a net profit of \$176 million, or \$0.36 per share, in the same period a year ago, as its revenue, net of royalties, decreased 34.8% to \$587 million. These very weak results can be attributed to the dramatic decline in the price of oil over the last year, which led to the company's average realized selling price of synthetic crude oil decreasing 33.5% to \$74.47 per barrel.

Here's a breakdown of eight other notable statistics from the report compared with the year-ago period:

1. Syncrude's total production increased 2.6% to 207,700 barrels per day
2. Sales volumes increased by 24 barrels to 77,088 barrels per day
3. Cash flow from operations decreased 70.8% to \$70 million
4. Cash flow from operations decreased 72% to \$0.14 per share
5. Total operating expenses decreased 11.7% to \$369 million

6. Total operating expenses decreased 11.8% to \$52.63 per barrel
7. Capital expenditures decreased 51.7% to \$155 million
8. Paid out a quarterly dividend of \$0.05 per share for a total cost of \$24 million, compared with a dividend of \$0.35 per share for a total cost of \$169 million in the year-ago period

Canadian Oil Sands also announced that it will be maintaining its quarterly dividend of \$0.05 per share, and the next payment will come on August 31 to shareholders of record at the close of business on August 24.

Should you buy or avoid Canadian Oil Sands's stock today?

It was a very weak quarter for Canadian Oil Sands, so I think the post-earnings drop in its stock was warranted. I also think the stock could face continued weakness going forward because the price of oil remains under pressure, which will lead to further disappointment in the third and fourth quarters, and its measly 2.7% dividend yield will provide very little protection to the downside.

With all of the information provided above in mind, I think Foolish investors should avoid Canadian Oil Sands indefinitely.

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