Suncor Energy Inc. and Canadian Natural Resources Limited Could Look to Acquire

Description

When times are good, everyone gets rich. When oil prices were high, firms big and small were making money. But when oil prices drop to five-year lows as it happened last week, many smaller oil companies are likely going to start hurting. And if prices continue to drop further and remain there, these companies are going to be unable to operate and may become acquisition targets.

And it’s not just little companies. Even giant oil companies could be bought. *The Wall Street Journal* reported that **Royal Dutch Shell plc** (NYSE: RDS.A) was looking to acquire **BP plc** (NYSE: BP) — a company worth over $120 billion.

These sorts of acquisitions are common when times are bad in the industry. In 1998, **Exxon Mobil Corp.** (NYSE: XOM) was formed when Exxon bought Mobile for US$85 billion. Around that same time, oil prices dropped to a low not seen since the 1970s.

What this leads me to believe is that **Suncor Energy Inc.** (TSX: SU)(NYSE: SU) and **Canadian Natural Resources Limited** (TSX: CNQ)(NYSE: CNQ) could become buyers. They are the two largest Canadian petroleum companies by cumulative market cap. That means that they could look to gobble up smaller companies in a bid to become even bigger.

The problem is identifying which companies they could look to acquire. There are dozens of small plays near home that they could buy. But I believe that for two companies that bring in tens of billions of dollars in revenue a year, they will be looking to acquire a company that will move the needle.

When times are bad, buy the biggies

What this means for you is you should look to take positions in the largest oil companies. While smaller cap companies might have more volatile swings that could make things profitable, if you’re looking to build your portfolio and cement some returns, think about the big firms.

Suncor and Canadian Natural Resources can handle US$65/barrel prices. The companies could probably survive even if the price drops into the $50s and $40s. They have enough money and resources to stomach those prices. But smaller companies won't and when it's the difference between shutting down or getting bought, many people will choose the latter.

I advise starting a position in either of these two companies. When oil prices return to more respectable amounts, the two companies will have likely gobbled up some smaller competitors, and the returns for investors will be even greater.

But these two aren't the only energy plays I think you should make. Check out the report below for two energy companies that will dominate.

CATEGORY

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TICKERS GLOBAL

1. NYSE:BP (BP)
2. NYSE:CNQ (Canadian Natural Resources)
3. NYSE:SU (Suncor Energy Inc.)
4. NYSE:XOM (Exxon Mobil Corporation)
5. TSX:CNQ (Canadian Natural Resources Limited)
6. TSX:SU (Suncor Energy Inc.)

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