



Could Imperial Oil Limited Buy Canadian Oil Sands Ltd.?

Description

The difficult times in the oil market look set to continue for the next six to 12 months, and weaker players are going to start disappearing. One company that might not continue to operate in its current form is **Canadian Oil Sands Ltd.** (TSX:COS).

Here's why I think Canadian Oil Sands might be taken out in the next 12 to 18 months.

Production problems

Canadian Oil Sands has a 37% stake in the troubled Syncrude oil sands operation. The company is the largest shareholder in Syncrude and the position essentially represents the core of the company's operations.

Syncrude has been a disaster for the past two years and the current outlook isn't much better. Canadian Oil Sands had to ratchet down production guidance several times in both 2013 and 2014.

Output is expected to be 95 to 110 million barrels for 2015. This is the same range that was given at the beginning of 2014, before the series of reductions. While the operational situation might improve this year, the track record and 2015 expense budget suggests investors should be careful.

Operating costs

In the third quarter of 2014, Canadian Oil Sands reported operating expenses of \$47.73 per barrel. This is one of the highest production costs in the patch. Western Canadian Select (WCS), the price that oil sands producers normally receive, is currently trading around \$40 per barrel. Expenses for 2015 were recently set at \$1.7 billion. This is slightly higher than 2014.

Higher costs combined with flat output and lower market prices suggest tough times are in the forecast this year for Canadian Oil Sands and its management team.

Dividend cuts

Investors should be prepared for another dividend reduction or even an outright cancellation of the payout when Canadian Oil Sands reports its Q4 2014 earnings on January 29. The company's dividend track record is one of the most inconsistent in the oil sector.

Ownership change?

The future doesn't look bright for Canadian Oil Sands and it might end up being bought out by one of its Syncrude partners. **Imperial Oil Limited** ([TSX:IMO](#))([NYSEMKT:IMO](#)) owns 25% of the project, and is the main operator of the facility.

At the current price of \$8 per share, Canadian Oil Sands only has a market capitalization of \$3.9 billion. Imperial Oil's market cap is \$41 billion and its majority owner, **Exxon Mobil Corporation**, has a market cap of US\$390 billion.

Consolidating the Syncrude ownership would make sense, and Imperial Oil could sell off the remaining Canadian Oil Sands assets.

One other Canadian company that is struggling to remain independent has much better prospects than those of Canadian Oil Sands.

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