3 Reasons Suncor Energy Inc. Could Buy Canadian Oil Sands Ltd.

Description

Canadian Oil Sands Ltd. (TSX:COS) is looking vulnerable to a takeover. The company is struggling with high operating costs, falling revenues, and a plunging stock price. If the dividend gets cut completely, the stock could test the $5 mark.

Here are three reasons why I think **Suncor Energy Inc.**(TSX:SU)(NYSE:SU) could be a buyer of Canadian Oil Sands Ltd.

1. Great assets

Canadian Oil Sands owns 37% of the Sycrude oil sands project. The facility has a production capacity of 350,000 barrels per day and sits on more than 4.5 billion barrels of proved plus probable reserves and another 5 billion in contingent resources.

Syncrude has been struggling over the past couple of years as operational problems have reduced production and driven costs skyward. Operating costs per barrel are now running above $47, significantly higher than the roughly $40 per barrel the market is paying for Western Canadian Select (WCS) oil.

Despite the current difficulties, the long-term value of the asset is undeniable.

2. Knowledge of Syncrude

Suncor is no stranger to Syncrude. In fact, the company already owns 12% of the project. As Canadian Oil Sands continues to falter, its stake in Syncrude becomes much more attractive to the other partners. Suncor might not want to take on the entire position. A more realistic outcome could be a joint takeover with **Imperial Oil Limited** (TSX:IMO)(NYSEMKT:IMO).

Imperial owns 25% of Syncrude and is the main operator of the project.

3. Financial strength

Suncor has a very strong balance sheet and is large enough that it could acquire Canadian Oil Sands without much difficulty. In fact, Suncor finished the third quarter of 2014 with more than $5.3 billion in cash and cash equivalents. At the time of writing, Canadian Oil Sands only had a market value of $3.3 billion. The company had total debt at the end of Q3 2014 of less than $2 billion.

Suncor's market valuation is greater than $50 billion.

Does the deal make sense?

Suncor recently said it expects the oil price to recover back to $90 per barrel in the next three or four years. If the prediction turns out to be correct, it would make sense for Suncor and the other Syncrude partners to take advantage of the current troubles at Canadian Oil Sands and consolidate the holdings of Syncrude.

The timing of the oil rout is unfortunate for Canadian Oil Sands because Syncrude could be on the verge of an operational turnaround. Two major capital projects are essentially complete and the positive effects on efficiency and cash flow should be significant.

Canadian Oil Sands might survive as an independent company if oil prices recover in the next six months, but the current outlook isn't encouraging.

Investors can profit handsomely if they catch a good turnaround story at the right time. The Motley Fool team is always searching for these opportunities and has recently identified one special stock.

CATEGORY

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Author
aswalker