



Will Canadian Oil Sands Ltd. Be the Next Talisman Energy Inc. or the Next Whiting Petroleum Corp.?

Description

Back in December as oil prices were falling off a cliff, shareholders of **Talisman Energy Inc.** (TSX:TLM)(NYSE:TLM) got a nice surprise. Spanish giant **Repsol SA**, which had previously shown interest in acquiring Talisman, came back into the picture. In the end, Repsol bought out Talisman for US\$8.3 billion. If you had perfect timing, you would have doubled your money in just five days.

Understandably, we all want to find the next Talisman, and there's one candidate that stands out: **Canadian Oil Sands Ltd.** (TSX:COS). The two companies share a lot in common and there have been plenty of takeover rumours for COS. So, just how likely is this scenario?

Before answering this question, we must look at a counterexample. Allow me to introduce **Whiting Petroleum Corp.** ([NYSE:WLL](#)).

A head-fake

Whiting Petroleum is the largest producer in the Bakken formation and the company has struggled, to say the least. After a US\$3.8 billion acquisition last year, plunging crude prices put pressure on the company's balance sheet. In response, Whiting pursued a sale, even hiring a bank to help with the process.

You could imagine what happened next. The stock jumped 12% when markets opened March 9. Investors were clearly hoping for another Talisman.

Those hopes were dashed on Monday, when Whiting announced it would be raising US\$1.75 billion in debt and selling 35 million new shares. The stock is down 20% as of this writing.

So, will COS be the next Talisman or Whiting?

In early February energy analyst Michael Dunn speculated that a "take-out [of Canadian Oil Sands]...is a distinct possibility should the shares continue to languish." In response, COS shares jumped by 20% and remain around that level today. So, that raises the billion dollar question. Will COS be the next

Talisman, or the next Whiting?

Well, I wouldn't count on COS being taken over any time soon. There are a couple of reasons for this.

First of all, this is clearly a buyer's market. There are many companies looking to sell assets (or themselves), and potential buyers are well aware of this. Furthermore, if there are any bankruptcies, then these assets may get even cheaper.

Second, oil producers have already announced big cuts to their capital budgets. Acquiring a company like COS would not only require paying a big purchase price, but would also come with bigger capital commitments. It would send a very confusing message to shareholders.

What should you do?

If you truly believe oil will rebound sharply, COS is a great way to make that bet. However, if you're thinking of buying a stock just because it might get bought out, you should think again.

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Author

bensinclair

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