3 Canadian Energy Companies That Could Be Bought Out

Description

As oil prices continue to stagnate, there hasn't been much merger activity among energy companies. This is surprising, since low prices historically have prompted mega-mergers, as it did in the early 2000s.

That changed on Wednesday morning, when **Royal Dutch Shell Plc** bought **BG Group Plc** for US$70 billion. In response, BG shares are up 30% as of this writing.

So, could a Canadian energy producer be the next BG? The answer is quite possibly yes. Below we take a look at three candidates.

1. **Canadian Oil Sands**

Canadian Oil Sands Ltd. (TSX:COS) is the operator and largest owner of the Syncrude joint venture, which produces high-quality crude oil in Alberta. The oil downturn has been especially unkind to Canadian Oil Sands, whose high debt level (along with its future spending commitments) is now putting the company under financial strain. Its dividend has been cut twice in just the past few months, and in the past year its shares have fallen by more than 50%.

Canadian Oil Sands is often cited as a possible takeover target—in fact, this has prevented its shares from falling further. Possible buyers include **Suncor Energy Inc.** and **Imperial Oil Limited**, both of which have strong balance sheets, strong share prices, and familiarity with Syncrude. One of the two could easily take the plunge.

2. **Penn West**

Even before the oil rout, **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE) was having its fair share of challenges. Years of reckless spending and operational problems had led to an overstretched balance sheet, and a $400 million accounting scandal last July didn't help either. Once oil prices crashed, that only made the situation worse. In the last year, the company's stock price has fallen by nearly three quarters.

At this point, Penn West has some very valuable assets, which aren't reflected in its stock price. This is because the company doesn't have enough funds to fully develop them. So, if a large buyer were to come along, it could get those assets for pennies on the dollar. Such an opportunity might be too good to pass up.

3. **Lightstream Resources**

Lightstream Resources Ltd. (TSX:LTS) has a lot in common with Penn West. It has a heavy debt load, a collapsed share price, and a tonne of assets. Also like Penn West, Lightstream's stock price doesn't give the company credit for all this asset value. A sale of the company would allow the buyer to acquire these assets for a bargain.

Should you buy any of these shares?

Even with so many bargains available, large would-be acquirers are waiting patiently. I can see why—if companies such as Canadian Oil Sands and Penn West run into serious financial trouble, their assets will be even cheaper. In the meantime, any buy out will be scrutinized heavily by the buyer's shareholders.

With that in mind, I think you should wait patiently too. These three companies are all very risky, and hoping for a buyout is a very dangerous game to play.

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