



Could Suncor Energy Inc. Start Acquiring Now That Royal Dutch Shell PLC Has Made the First Move?

Description

The Wall Street Journal broke the news yesterday that **Royal Dutch Shell PLC** would be acquiring **BG Group PLC** for US\$70 billion, which is a significant premium over the market cap of US\$46 billion. This news is something I've been waiting to see in the oil industry for some time.

In the late 1990s, there was a slew of mergers and acquisitions (M&A) because oil prices had reached a low not seen since the 1970s. In 1998 **Exxon Mobil Corp.** came into existence when Exxon bought Mobil for US\$85 billion.

The reason this happens is because oil companies see the potential in streamlining operations, increasing output, and finding targets that could be high performers in a better managed situation. That's why I think that **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) must have its eyes wide open for potential targets.

It's one of the largest oil companies in Canada. It generates billions every year in revenue. And the only way for it to move the needle is to start launching new rigs—a bad idea right now—or to acquire smaller firms.

Now it's difficult to pick the firms that could be targets, but you have to imagine they would be any company that is having severe financial difficulty. Suncor can swoop in, buy the company, get rid of unnecessary administration, and soon enough, Suncor will be pumping even more oil.

There's still plenty of uncertainty ahead

The simple reality is that no one truly knows what's going to happen in the oil industry. But if we take the 1990s as a history lesson, there's going to be plenty of M&A movement. These types of acquisitions are common when the oil market is depressed.

But Suncor could also wind up being the seller, not the buyer. There are plenty of larger oil companies out there that could look to Suncor as a way of growing their business.

At the end of the day, here's what I think you should do. If you own Suncor, hold it. It's a relatively safe

oil stock. If you don't own any and you want to add an oil stock to your portfolio, consider buying it. It's probably one of the safest oil stocks around simply because it is streamlined and has always built its business with the belief that oil would be priced where it is now.

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2. Investing

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1. NYSE:SU (Suncor Energy Inc.)
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