



Why Hasn't Suncor Energy Inc. Bought Canadian Oil Sands Ltd. Yet?

Description

As oil prices continue to languish, you should expect a wave of consolidation in Canada's energy patch as weak players find themselves out of options.

One such weak player is **Canadian Oil Sands Ltd.** (TSX: COS), the largest owner of the Syncrude project. The company has fallen on hard times recently thanks mainly to its balance sheet, but also due to its lack of profitability. It is frequently cited as a takeover candidate, with one possible acquirer being Syncrude partner **Suncor Energy Inc.** ([TSX: SU](#)) ([NYSE: SU](#)).

So, why hasn't Suncor taken advantage of low oil prices to snap up COS? And will it happen soon? We take a look below.

Too much debt

As a general principle, companies with too much debt make very poor acquisition candidates. To understand why, consider a company with \$1,000 worth of assets and \$1,000,000 in debt. Surely such a company would have a stock price close to zero and would likely declare bankruptcy soon. Fortunately for equity holders, they know the value of their stock can't sink below zero.

But if this company was acquired, then the new owner would be on the hook for that entire debt load. Thus, an acquisition would never make sense, even if it came with a \$0 price tag.

Granted, COS's situation isn't that dire. But the company is in desperate straits—it is losing money on every barrel of oil produced and its net debt has swelled to \$2.4 billion. Put simply, COS badly needs oil prices to rebound.

Where does Suncor fit in?

If oil prices stay at this level, then you're going to see a lot more pain in Canada's energy patch. In plain English, you'll see some companies forced to sell assets and others forced into bankruptcy.

This is perfect for Suncor, since it will be one of the few buyers in a market with many sellers. As long

as the company doesn't absorb any big debt loads with its purchases, it should get some tasty bargains, even when considering today's oil prices.

Thus, Suncor has no need to buy out COS now. Instead, it can wait for COS to run into financial trouble, at which point it can acquire a stake in Syncrude (without any of COS's debt) for pennies on the dollar.

This is bad news for COS shareholders, many of whom are hoping the company will get bought out at a premium. So, if you own the shares and are hoping Suncor steps in, you should probably sell your stake sooner rather than later.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

Category

1. Energy Stocks
2. Investing

Date

2025/07/22

Date Created

2015/09/18

Author

bensinclair

default watermark

default watermark