Will Suncor Energy Inc. Buy Either of These 2 Companies?

Description

After months of waiting, **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) has finally started putting its balance sheet to work, buying an additional 10% interest in the Fort Hills oil sands project.

The transaction cost Suncor $310 million and is a sign of the company's optimism. Fort Hills is a very expensive project; it is only economical if one assumes a robust rebound in the price of oil. Given such optimism, you would expect Suncor to buy other assets, or to buy entire companies altogether.

So, what companies should Suncor be looking at? We take a look at two candidates below.

1. Canadian Oil Sands

Canadian Oil Sands Ltd. (TSX:COS) is often cited as an attractive takeover candidate for Suncor. After all, COS is the largest owner and operator of the Syncrude joint venture, of which Suncor is also a partner.

So, there's certainly a degree of familiarity between COS and Suncor. Better yet, COS's share price has fallen by more than two-thirds over the past year. And given Suncor's optimism about oil prices, COS must look seriously undervalued by now.

If that weren't enough, COS must restrict its investment spending due to its weak balance sheet. If the company were in Suncor's hands instead, there would be no such restrictions.

There's only one major problem: debt. COS's net debt stands at $2.4 billion, a very high number for a company worth only $3.2 billion. I doubt Suncor is interested in being on the hook for the full amount. So, the company may have to renegotiate COS's debt in the event of a takeover. Otherwise, Suncor could wait for COS to suffer further, and simply buy a bigger stake in Syncrude. Either way, the outlook doesn't look good for COS's shareholders.

2. Penn West

Penn West Petroleum Ltd. (TSX:PWT)(NYSE:PWE) has become the poster-child of everything wrong with the Canadian energy patch. The company's balance sheet was overstretched even before oil prices fell, making the downturn especially painful.

Penn West has responded by renegotiating debt covenants, selling assets, eliminating the dividend, cutting capital spending, and cutting staff. Unsurprisingly, the company's shares have plummeted, falling by more than 90% in the past 12 months.

Penn West must look very cheap to Suncor by now. And Suncor would be able to fully take advantage of Penn West's sprawling asset base. But once again, the company's debt remains the main obstacle. Even after all the steps taken above, Penn West's debt still totals nearly $2 billion. By comparison, Penn West's market value is only $340 million. Based on where the company trades, investors clearly expect the company to go bankrupt.

And Suncor is unlikely to bail out Penn West. Instead, it will likely buy assets from the company, or wait for it to go bankrupt. Either way, the future doesn't look promising for Penn West's shareholders. You certainly shouldn't want to be one of them.

CATEGORY

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