3 Companies That Suncor Energy Inc. or Imperial Oil Limited Might Buy Out

Description

As oil prices continue to languish, analysts are predicting a wave of merger and acquisition activity in Canada's energy sector.

We've seen this kind of pattern before. In the late 1990s, low oil prices led to the merger of several oil majors, including Exxon and Mobil. **Suncor Energy Inc.'s** (TSX:SU)(NYSE:SU) purchase of Petro Canada occurred during the 2009 downturn.

In a report released last week, **Citigroup** identified Suncor and **Imperial Oil Limited** (TSX:IMO)(NYSE:IMO) as potential consolidators, mainly due to their size and balance sheet strength. Citigroup also highlighted three prime takeover targets. We take a look at each below.

1. Cenovus

If Suncor or Imperial wanted to buy **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE), it wouldn't come cheap. Cenovus is valued at over $16 billion by the market, and has another $4.3 billion in net debt.

But there are some things to like about Cenovus. For starters, it has arguably the most efficient assets in Canada's oil sands at Foster Creek and Christina Lake. Cenovus was also a pioneer in the use of steam-assisted gravity drainage, and has learned many lessons about the technology. The company's expertise could be very useful to an acquirer.

Better yet, Cenovus has a very cheap share price. According to the same Citigroup analyst, the company has a liquidation value of more than $25 per share, well above its $20 share price.

2. COS

Canadian Oil Sands Ltd. (TSX:COS) is the largest owner of the Syncrude joint venture. That makes it a perfect takeout candidate for Imperial or Suncor, both of which also own a stake in Syncrude. And COS must be looking pretty cheap right now, with its stock price down 70% over the past 12 months.

One big sticking point will be COS's $2.4 billion in net debt, which neither Imperial nor Suncor would be keen to inherit. One option would be for the acquirer to use its superior credit rating to renegotiate this debt. Alternatively, Suncor or Imperial could wait for COS to fall into further trouble, then simply buy a stake in Syncrude for pennies on the dollar.

3. MEG

Like Cenovus, **MEG Energy Corp.** (TSX:MEG) has some very efficient assets at Christina Lake. The company also had some very ambitious growth plans before oil prices turned south.

Unfortunately for MEG, the company had borrowed heavily, and didn't have any hedges. So, it has had to dial back its growth plans. But Imperial and Suncor both have massive war chests and could more effectively exploit MEG's assets.

Better yet, MEG's shares seem very depressed after declining by 75% in the past year. Imperial and Suncor must be getting tempted by now.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:CVE (Cenovus Energy Inc.)
4. TSX:IMO (Imperial Oil Limited)
5. TSX:SU (Suncor Energy Inc.)

Category

1. Energy Stocks
2. Investing

Date
2025/07/06
Date Created
2015/09/27
Author
bensinclair