



## Why Suncor Energy Inc. Is Offering \$4.3 Billion for Canadian Oil Sands Ltd.

### Description

For months, analysts and other observers (including *The Motley Fool Canada*) have speculated that **Canadian Oil Sands Ltd.** (TSX:COS) would make a prime acquisition target for **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)).

Those speculations came true on Monday morning, when Suncor made a hostile \$4.3 billion all-share offer for COS. The deal would see COS's shareholders receive 0.25 Suncor shares for every COS share, and Suncor would also assume COS's debt.

So, why exactly is Suncor buying COS? We take a look at three reasons why below.

#### 1. A bargain price

It's no secret what's going on here. With oil prices languishing in the mid-US\$40s, assets have become very cheap by historical standards. COS shares were hit especially hard because of the company's debt load—before Suncor's bid, COS stock had declined by nearly 80% in the previous 12 months alone.

There will still be people who say Suncor paid too much. In fact, the company's shares have declined in response. In all likelihood, Suncor probably could have waited even longer and gotten a better price—especially if producers started declaring bankruptcy. But at the end of the day, COS shares were simply too cheap to pass up.

#### 2. The same asset

For those of you unfamiliar with COS, it is the largest owner of the Syncrude project, of which Suncor also owns a stake. Thus, Suncor already has an intimate knowledge of COS's only asset. So, there's a high degree of familiarity surrounding this purchase.

Furthermore, COS doesn't actually operate Syncrude; it's really more of a virtual company. Thus, Suncor can eliminate practically all of COS's corporate overhead costs, achieving some nice synergies along the way.

### 3. Plenty of ammunition

In this energy environment, with asset prices so depressed, it certainly pays to be a buyer. But, of course, there are very few companies with the ammunition to be an acquirer. Suncor is one of those companies.

For starters, Suncor has an extremely clean balance sheet, which includes nearly \$5 billion in cash. The company also has a strong refining and marketing business, which helps to conserve cash flow in an environment such as this.

But rather than use this cash, Suncor is taking advantage of its stock price, which has declined only 13% in the last 12 months. This is something that most other energy companies simply cannot do.

This is actually the second acquisition Suncor has made in just two weeks. Back in September, the company bought an additional stake in the Fort Hills oil sands project from **Total SA**. And given Suncor's firepower, you should expect more deals in the weeks and months ahead.

#### CATEGORY

1. Energy Stocks
2. Investing

#### TICKERS GLOBAL

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

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