



Why Canadian Oil Sands Ltd. Just Soared 50%

Description

Canadian Oil Sands Ltd. (TSX:COS) soared 50% at the open on October 5 as news came out that **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) is offering to buy the company.

Here's the scoop on the deal and an idea of how it could play out.

The offer

Suncor is offering \$4.3 billion in stock and will assume \$2.3 billion in debt, making the total deal worth about \$6.6 billion.

That represents a premium of more than 40% based on the October 2 closing price.

Relationship

Suncor and Canadian Oil Sands are partners on the massive Syncrude project. Currently, Canadian Oil Sands owns about 37% of Syncrude and Suncor owns 12%.

Operational issues have plagued Syncrude for several years, and the project is one of the highest-cost oil sands producers in the patch. With the downdraft in oil prices over the past year, Canadian Oil Sands has taken a real beating because it holds the largest stake in the project.

Before the takeover bid was announced, Canadian Oil Sands had fallen from \$20 per share a year ago to just above \$6, where it traded at the end of last week.

Suncor revealed it had approached Canadian Oil Sands in the spring of this year, but the overtures were not well received. At the time, oil prices had rebounded significantly from the winter lows and management at Canadian Oil Sands probably thought the market had bottomed. In hindsight, it might have been better to do a deal then.

The game might not be over yet.

White knights

There is a possibility that **Imperial Oil** could also make an offer for Canadian Oil Sands because it has a 25% stake in Syncrude and actually operates the facility. **Sinopec**, **Nexen**, **Murphy Oil**, and **Mocal Energy** are the other partners.

Is the deal good for Suncor?

The company has expertise in the oil sands space as well as a strong enough balance sheet to ride out the current slump. Syncrude's reserves are very attractive and likely as cheap as they are going to get. As a long-term strategy, it's probably a good move, assuming oil prices recover in the coming years.

The market reacted negatively to the news, driving Suncor's shares down more than 2.5%.

Should you buy or sell Canadian Oil Sands?

Current Canadian Oil Sands shareholders might as well hold on to the stock because they are going to get Suncor shares if the deal goes through, and there is a chance that another offer could send the price higher.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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

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Date

2025/09/18

Date Created

2015/10/07

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