



Will Canadian Oil Sands Ltd. Get a Higher Offer?

Description

Canadian billionaire Seymour Schulich is one of the largest shareholders of **Canadian Oil Sands Ltd.** (TSX:COS), holding 25 million shares. So, when **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) offered \$4.3 billion for Canadian Oil Sands, Mr. Schulich's net worth jumped by roughly \$85 million on Monday.

But that didn't make him happy. Mr. Schulich believes Suncor is being opportunistic, and that the energy giant's offer undervalues Canadian Oil Sands by a wide margin. He called the bid "not a low-ball offer, but a no-ball offer," and even vowed to fight it in court.

As of this writing, Canadian Oil Sands's shareholders seem to be listening to Mr. Schulich. The shares trade at about a 7% premium to Suncor's offering price, anticipating that a higher bid is on the way.

So, will Canadian Oil Sands's shareholders get what they're expecting?

Reasons for optimism

In all likelihood, Suncor would offer a higher price for Canadian Oil Sands if it needed to. The company revealed on Monday that it had approached Canadian Oil Sands management twice in the spring, and offered more than \$4.3 billion each time. But Canadian Oil Sands management rejected Suncor's overtures.

Furthermore, there may be another interested player: **Imperial Oil Limited** ([TSX:IMO](#))(NYSE:IMO). Like Suncor, Imperial Oil also owns a large stake in Syncrude, so it is very familiar with Canadian Oil Sands. And if Mr. Schulich is even half right, Imperial Oil may be compelled to make an offer.

Not so fast

You shouldn't jump at Canadian Oil Sands stock yet. There are some big reasons why this is the highest offer Canadian Oil Sands shareholders will see.

To start, both Suncor and Imperial Oil have plenty of options when it comes to acquisitions. Smaller producers are struggling left and right, and many of them are undoubtedly looking for a buyer. So,

rather than engage in bidding wars, both Suncor and Imperial Oil would be better off pursuing their own bids.

Secondly, Suncor may very well want to make more acquisitions after this one. And it surely doesn't want to send a message that it will raise its bids at the first sign of resistance.

Finally, Suncor's offer may not really be that low. According to a recent investor presentation, it costs Syncrude roughly US\$50 to produce one barrel of oil. So, Canadian Oil Sands doesn't earn any profits at current oil prices.

A dangerous game to play

In these situations, it's not uncommon for bidding wars to emerge. Just look at what happened last year when **Goldcorp** and **Yamana** bid up the value of Osisko Mining. Or when Botox maker Allergan found a white knight bidder. In both of these instances, shareholders made a lot of money, even after the first bids were announced.

But shareholders could also lose big. **Pacific Exploration and Production Corp.** is a recent example. In that case, the company's shareholders thwarted a bid, and its share price fell 45% the next day. Investors, be warned.

CATEGORY

1. Energy Stocks
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1. NYSE:SU (Suncor Energy Inc.)
2. NYSEMKT:IMO (Imperial Oil Limited)
3. TSX:IMO (Imperial Oil Limited)
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