



## 3 Reasons Canadian Oil Sands Ltd. Won't Do Better Than the Offer From Suncor Energy Inc.

### Description

When **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) offered \$4.3 billion for **Canadian Oil Sands Ltd.** (TSX:COS), Seymour Schulich was not happy. The billionaire is one of Canadian Oil Sands's largest shareholders, and he thought Suncor was simply being opportunistic. As he put it in an interview with the *Financial Post*, "It's not a low-ball offer, it's a no-ball offer."

Canadian Oil Sands's other shareholders seem to agree. As of this writing, the company's shares trade for roughly \$10, while Suncor's bid is worth less than \$9.20. Thus there seems to be an expectation that a higher offer will arrive.

But this is quite simply a false hope. Below are three reasons why.

#### 1. It's not a bad offer

Mr. Schulich believes that Canadian Oil Sands is worth roughly \$20 per share, and has even threatened to go to court to get a valuation.

But if I were the judge, I would reject his claim. Canadian Oil Sands is not exactly a low-cost producer; it needs oil prices above US\$50 just to break a profit. The company also has more than \$2.3 billion in net debt, which puts its long-term sustainability in serious jeopardy.

Most importantly, Canadian Oil Sands was trading for just \$6.19 per share before Suncor announced its offer. Thus Suncor is offering a pretty hefty premium, one that other oil companies will be hesitant to beat.

#### 2. There are plenty of targets available

We've seen plenty of bidding wars emerge before. But those only tend to occur when there's a prized asset involved.

That's simply not the case here. Canadian Oil Sands is one of many different oil producers that could

benefit from being taken out. **Penn West Petroleum Ltd.** and **Baytex Energy Corp.** are two others that spring to mind. Meanwhile, there's a very small list of companies that are looking to make acquisitions.

Thus if you're looking for an energy company to buy out, you could probably get a better deal by going after a different target and staying out of Suncor's way.

### 3. Fighting Suncor is a bad idea

According to an article from the *Business News Network*, Calgary's energy industry is a "close-knit" community, one in which executives often cross paths outside of the workplace. That's why hostile bids—like the one Suncor made—are so rare in Canada's energy patch.

And it's one thing to pick a fight with Canadian Oil Sands. It's another thing to challenge Suncor and its management team. Challenging the company and upsetting its executives could even be a career-limiting move.

At this point, owning Canadian Oil Sands shares is a very dangerous game to play, one that could end up costing you a lot of money.

#### CATEGORY

1. Energy Stocks
2. Investing

#### TICKERS GLOBAL

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

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