



Will Canadian Oil Sands Ltd. Be the Next Pacific Exploration and Production Corp.?

Description

As of this writing, **Canadian Oil Sands Ltd.** (TSX:COS) trades at a slight premium to the \$4.3 billion offer from **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)). This can only mean one thing: shareholders are expecting a higher offer to come, whether it be from Suncor or from another company.

So, is this a bet you should be making as well? To help answer that question, let's take a look at a couple of recent precedents.

The bull scenario: Allergan

In late April of last year, **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) made a hostile bid for Botox-maker **Allergan Inc.** (NYSE:AGN) with the help of activist investor Bill Ackman. The offer was worth just over US\$150 per Allergan share, but investors were expecting something more. Allergan's stock price immediately surged past US\$165.

As it turned out, those investors were absolutely right. Allergan's board quickly rejected Valeant's initial offer, only to see the offer raised twice more. Eventually a white knight came along, and Allergan was acquired for US\$219 per share. Shareholders in the company profited very handsomely, even after the initial offer was made.

COS shareholders are surely hoping for a similar scenario. But it doesn't always turn out that way.

The bear scenario: Pacific Exploration

Pacific Exploration and Production Corp. (TSX:PRE) offers a harsh lesson for investors looking to profit in these types of situations.

Back in early May, the company (then known as Pacific Rubiales) received a takeout offer for \$6.50 per share. It seemed like a generous offer at the time. After all, Pacific had traded in the mid-\$3 range just days earlier.

But Pacific's largest shareholder thought the offer was too low and urged other shareholders to vote against it. The two major proxy advisory service firms agreed. As a result, it became increasingly clear the bid would fail.

So, in early July the bid was withdrawn. Unfortunately, there was no white knight coming to the rescue, so Pacific's share price fell more than 40% in one day. Shares have only recovered slightly since then.

Which way will this go?

Unfortunately for COS and its shareholders, the company has a lot more in common with Pacific than it has with Allergan. Like Pacific, COS is just one of many energy companies that can benefit from a takeover. And the list of potential acquirers is not large.

Contrast this with a company like Allergan, which had an asset (Botox) that any acquirer would have treasured.

So, if you're thinking of buying COS, you should remember what it was like to be a Pacific shareholder in early July. It's the kind of situation you should be looking to avoid.

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