Why Cenovus Energy Inc. and MEG Energy Corp. Are Ideal Takeover Targets

Description

As oil prices continue to languish, energy analysts are expecting a wave of mergers to hit the sector.

This would not be unprecedented. When oil prices crashed in the late 1990s, there were four big mergers among the energy majors. Then when prices crashed again in 2009, **Suncor Energy Inc.** bought out Petro-Canada. Fast forward to 2015, and Suncor has once again gotten the ball rolling with its $4.3 billion offer for **Canadian Oil Sands Ltd.**

With that in mind, we take a look below at two energy companies that could easily get bought out: **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) and **MEG Energy Corp.** (TSX:MEG).

Some prime assets

Cenovus has some of the best assets in Canada's energy patch at Foster Creek and Christina Lake. The company has lots of experience operating these assets, and this experience would likely be useful to any acquirer. Likewise, MEG Energy has some very high-quality assets at Christina Lake, and these would look very good in an acquirer's portfolio.

Under strain

Low energy prices have forced most producers to scale back their growth ambitions. Cenovus and MEG are no exception.

By the end of January, Cenovus had cut its 2015 spending plans twice, and the company announced further job cuts at the end of July. MEG responded in a similar way, slashing its 2015 budget twice last December.

These decisions were driven in part to preserve these companies' balance sheets, making them very prudent moves. But remember, these companies have some of the best assets in the entire sector, and drilling costs have declined sharply. So, one has to figure that an acquirer, one with a lot of financial firepower, could get more out of these assets than MEG and Cenovus can.

Through a series of moves, including a dividend cut, sale of royalty lands, and an equity raise, Cenovus has solved its balance sheet woes. But MEG is still heavily levered, which will, without a doubt, crimp the company's growth plans. Larger companies have certainly taken notice.

Cheap prices

Over the past 12 months, Cenovus's stock price has fallen by 20%. That may sound like a lot, except MEG has fallen by roughly 60%! Meanwhile, Suncor's share price has been flat.

So, Cenovus and MEG are looking very cheap to companies like Suncor. And given what happened to Canadian Oil Sands, we could easily see a big announcement in the near future.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. TSX:CVE (Cenovus Energy Inc.)

Category

1. Energy Stocks
2. Investing

Date
2025/07/21
Date Created
2015/10/16
Author
bensinclair