



Is it Time to Buy Canadian Oil Sands Ltd.?

Description

Canadian Oil Sands Ltd. (TSX:COS) is a hot topic these days as investors try to decide how they should play the takeover offer from **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)).

Rumours of a bid

Speculation had been brewing for months that Canadian Oil Sands could become a target, and Suncor was one of the top names that came up as a potential suitor.

The two companies are partners in the massive Syncrude oil sands project, which has nearly 50 years of production potential. Canadian Oil Sands owns about 37% of Syncrude and Suncor holds 12%. If the deal goes through, Suncor would control nearly half of Syncrude, and that could be a good thing for Suncor shareholders if long-term oil prices return to previous highs.

Suncor is offering about \$4.3 billion in stock to buy out Canadian Oil Sands and will take on \$2.3 billion of the company's debt, making the deal worth about \$6.6 billion.

When announced, the price represented a 40% premium over the previous closing price of Canadian Oil Sands shares.

Opinions vary on what Canadian Oil Sands should do.

Fans of the deal say the board should take the offer and run because Syncrude continues to struggle with high operating costs and low market prices. As the partner with the largest stake, Canadian Oil Sands has to shoulder the brunt of the costs, and it doesn't have the balance sheet strength to do that for the long term if energy prices remain at current levels.

Critics, including Canadian Oil Sands and its board of directors, say the offer is way too low and doesn't reflect the full value of the resources. Canadian Oil Sands has adopted a poison pill and is suggesting shareholders reject Suncor's offer.

What should investors do?

Existing shareholders can either sell now to lock in the 50% gain from the pre-bid price, hope for Suncor to raise its offer, or wait for a white knight to enter the fray and drive the shares higher.

There is another possibility that isn't so rosy. If no other suitor emerges and Suncor pulls its bid, Canadian Oil Sands will be back where it started, which isn't good for investors.

The third quarter was an ugly one for oil prices, and Syncrude is still not operating anywhere near its capacity production.

When Canadian Oil Sands reports its Q3 numbers, investors should be prepared for bad news. For the time being, the market is keeping the shares around \$10 on the hopes of a deal, but shareholders might find themselves holding a \$6 stock again if Suncor walks.

New investors should probably avoid the stock. If you already own shares, I would sell now and search for another opportunity.

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1. Editor's Choice

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1. NYSE:SU (Suncor Energy Inc.)
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