Canadian Oil Sands Ltd.: the Top 3 Reasons to Expect a Higher Bid From Suncor Energy Inc.

Description

In previous articles, I have argued that **Canadian Oil Sands Ltd.** (TSX:COS) should reverse course and accept the $4.5 billion bid from **Suncor Energy Inc.** (TSX:SU)(NYSE:SU). To make a long story short, I said that Suncor's offer was the best that COS was going to get.

But not everyone agrees. FirstEnergy analyst Michael Dunn thinks that COS's shareholders should hold firm and wait for a better deal to emerge. He thinks it will be Suncor itself that will trump its own bid.

So, with that in mind, we look at three reasons to believe that Suncor will make a higher offer.

1. Suncor has made a higher offer before

This was not the first time that Suncor tried to take out COS. Back in April, Suncor offered 0.32 of its own shares for each COS share, which was significantly higher than the 0.25 exchange ratio offered today. Of course, that offer was turned down.

If Suncor were to make a similar bid today, then that would amount to nearly $12 per COS share.

2. Suncor is still optimistic about oil prices

Back in April, the WTI oil price averaged just under US$55 per barrel, well above where oil trades today. COS's share price was also higher, trading for roughly $13 during the back half of that month. So, it's easy to see why Suncor is making a lower bid for COS today.

But we know that Suncor takes a very long-term view on oil. This attitude dates back to the turn of the century, when it built its Millennium project during a period of low oil prices. Suncor also made its blockbuster Petro-Canada acquisition during the depths of the economic crisis.

And in this period of low oil prices, Suncor is continuing to think in the same way. Earlier this year, CFO Alister Cowan said he believes prices are going back to $90-100 in three to four years' time. Similar comments have been made by CEO Steve Williams.

Suncor is backing up its words as well. Just two weeks before the COS bid, Suncor acquired an additional 10% interest in the Fort Hills oil sands project from **Total**. Fort Hills is a project that needs much higher oil prices to be economic, so this was certainly a very confident bet. And based on practically every metric, Suncor would be getting a better deal on the COS purchase than it got with Fort Hills.

To make a long story short, Suncor is bidding far less than it thinks COS is worth.

3. COS would be a relatively smooth transaction

In previous articles, I have argued that there are plenty of fish in the sea for Suncor. If COS didn't work out, Suncor could simply bid on another company.

But COS's only producing asset is Syncrude, of which Suncor also owns a piece. So this would be an extremely smooth transaction, one in which Suncor knows exactly what it's getting. Meanwhile, other targets come with much greater risk.

When all is said and done, we don't yet know if Suncor will make a higher bid. But it's too soon to rule it out completely.

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