Cenovus Energy Inc. Says it Is Not for Sale

Description

After a long slumber, merger and acquisition (M&A) activity in Canada got a loud wake-up call when **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) launched an unsolicited bid for **Canadian Oil Sands Ltd.** (TSX:COS). It was an unwelcomed overture to say the least. Canadian Oil Sands called the bid "opportunistic" and "exploitive." It's now openly fighting against the bid in an effort to remain independent.

It's a fight that other struggling oil companies are being brought into because it is forcing them to scare away potential suitors before they get too close. **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) is the latest Canadian oil company that is saying it's not for sale. CEO Brian Ferguson recently addressed takeover speculation by saying that the company is not involved in any M&A deals either as a buyer or a seller. While that might be true, that alone won't stop the longing eyes of potential acquirers.

Attractive qualities

There were two things that attracted Suncor Energy to Canadian Oil Sands. The main attraction was the company's assets, namely its 37% stake in the Syncrude oil sands consortium, where Suncor Energy is a 12% partner. However, as attractive as that asset is, what makes Canadian Oil Sands so attractive right now is the fact that its stock price was down more than 65% before Suncor launched its hostile bid, which is quite a compelling discount for a premiere oil sands asset.

Cenovus Energy, likewise, has its share of premiere oil sands assets, namely its 50% stakes in the Christina Lake and Foster Creek oil sands projects. In addition to that the company has several other compelling assets in the region, some of which are still wholly owned. Further, like Canadian Oil Sands, its stock price has been deeply impacted by the downturn in the oil market; shares are down 27% in the past year.

So, a potential suitor would be acquiring a company with strong assets as well as a large backlog of future projects at a steeply discounted price.

The most logical bidder is already out of the market

The company that makes the most logical sense to be interested in Cenovus is U.S. oil giant **ConocoPhillips** (NYSE:COP), which is Cenovus's 50% joint venture partner in Christina Lake, Foster Creek, as well as the Narrows Lake development. However, ConocoPhillips isn't interested in M&A at the moment either. The company believes that it already has an enormous captured resources base upon which to grow, so it doesn't need to get bigger.

This doesn't necessarily mean that ConocoPhillips would be opposed to working with a new partner on those three oil sands projects. The company already works with another partner on its Surmont oil sands projects in Canada, and it has numerous partners in other ventures around the world. So, it likely wouldn't stand in the way if a suitor came calling for Cenovus.

With Suncor busy with another pursuit and ConocoPhillips out of the market, this leaves few potential buyers for Cenovus.

Investor takeaway

After what happened to Canadian Oil Sands, we're seeing other struggling Canadian producers like Cenovus stop M&A talk before it even begins. That being said, just saying they are not interested doesn't necessarily mean it will stop a would-be suitor in their tracks. However, given that most of its likely potential suitors are busy with other things, the company is more than likely to remain independent.

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