



## Is Suncor Energy Inc. About to Up its Buyout Offer for Canadian Oil Sands Ltd.?

### Description

**Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) recently launched a \$4.3 billion hostile takeover bid for **Canadian Oil Sands Ltd.** (TSX:COS). The primary purpose of the bid was create synergies between the two companies' major stakes in the Syncrude oil sands project. Canadian Oil Sands has a 37% stake in the 350,000 barrel per day project, while Suncor holds a 12% stake. Combined, the companies would hold a near 49% share.

With Canadian Oil Sands currently valued at \$4.8 billion, investors are sending a clear message that Suncor has undervalued the company in its takeover bid. Fortunately for current investors, it looks like a bid increase is right around the corner.

### If Suncor doesn't increase its bid, someone else will

While Canadian Oil Sands has not yet received a rival offer to Suncor's hostile takeover bid, the company's CEO has indicated that interest from other suitors has picked up. In an interview this month, he revealed that management had recently met with many of the company's top shareholders, who told him that the bid from Suncor is widely undervalued. "They're showing strong support for our recommendation that shareholders should reject the Suncor offer," he said.

Alternatives to accepting the Suncor offer include staying independent, selling off business segments, or selling the entire business to another buyer. In terms of finding another buyer, the Canadian Oil Sands CEO said that while they are "just in the early days of that process...we are getting interest." Additional potential bidders include other partners in the Syncrude project, including **Imperial Oil Limited** and **Exxon Mobil Corporation**.

### Major shareholders will push for a higher price

Seymour Schulich, one of Canadian Oil Sands's largest shareholders who owns roughly 5% of the company, has vowed to reject Suncor's offer: "It's not a low-ball offer, it's a no-ball offer," he said. "The bid is ridiculous. I ain't selling at that price."

Even though Suncor's initial bid represented a 43% premium over Canadian Oil Sands's previous

closing price, many estimate that it is worth less than half the replacement value of the Syncrude project, of which Canadian Oil Sands owns 37%.

### **As the market moves to consolidation, more bidders will emerge**

“These signs of mergers and whatnot do suggest a bottom and there could be more consolidation coming,” said Martin King, vice president of institutional research at FirstEnergy Capital Corp. “When you look at these cycles over time and you start to get consolidation, that’s usually a sign you’re at the bottom.”

Another analyst from Stephenson & Company Capital Management believes that there “is a widely held view that energy is grossly oversold...there’s some strong evidence to suggest this might be a turning point in the market.”

If either are correct, we could see a sweeping trend towards industry consolidation, meaning more bidders for undervalued assets such as Canadian Oil Sands could be just around the corner.

### **Expect the deal to be rejected**

With management urging investors to reject the offer and major shareholders lining up behind them, it’s doubtful that a deal goes through at the current price. This means that Suncor will need to either increase its offer or face competing bids from other, possibly better-financed peers. With a possible impending wave of market consolidation, it’s likely that competition will appear sooner rather than later.

#### **CATEGORY**

1. Energy Stocks
2. Investing

#### **TICKERS GLOBAL**

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

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