



Will Cenovus Energy Inc. Buy or Be Bought?

Description

Now that **Suncor Energy Inc.** has gotten the ball rolling with its \$4.3 billion bid for **Canadian Oil Sands Ltd.**, there's a widespread belief that we're about to see a wave of mergers in the energy sector.

And there's good reason for believing so. Languishing oil prices have crushed the weaker players, and selling themselves is probably their best way out. Meanwhile, stronger companies have an opportunity to scoop up smaller producers at seemingly bargain prices.

Cenovus Energy Inc. ([TSX:CVE](#))([NYSE:CVE](#)) is one company that often gets brought up in these discussions. Interestingly, Cenovus is cited as both a possible buyer and a possible seller.

So, is either a possibility? We take a look below.

Will Cenovus make an acquisition?

Earlier this year, no one thought Cenovus could make an acquisition. The company had faced operational challenges at its Foster Creek facilities, so when oil prices plummeted, its balance sheet suffered.

But Cenovus has taken some bold action to improve its financial condition. It sold its portfolio of royalty lands for \$3.3 billion. It raised \$1.5 billion in equity. And the company has dramatically cut costs. As a result, Cenovus finished the third quarter with less than \$2 billion in net debt. At the beginning of this year, that number was over \$4.5 billion.

And there's no shortage of potential targets. One strong possibility would be **MEG Energy Corp.** ([TSX:MEG](#)). The two companies both produce oil at Christina Lake, so there may be opportunities to combine operations, or at least to share knowledge. MEG's shares have also fallen over 60% in the past 12 months, so the company may seem very cheap right now.

Yet Cenovus isn't shopping for other companies—CEO Brian Ferguson has made that very clear. And the fact remains that Foster Creek and Cenovus have some of the best economics in the energy patch. So, the company's money is probably best spent drilling wells in those areas anyways.

Will Cenovus be bought?

Cenovus has been cited as a takeover target before, but there are some reasons to doubt such a transaction will take place.

First of all, Cenovus isn't as battered as some of its peers. As mentioned, its balance sheet is solid once again, and its share price has sunk only 28% over the past year. So, industry giants like Suncor can probably get better deals by looking at more troubled producers.

Secondly, Cenovus is a massive company, so integrating the company's operations would be a major challenge. Finally, the company most likely to buy Cenovus—**ConocoPhillips**—has stated that it isn't in the mood for a big acquisition.

So, you should expect Cenovus to remain independent for the time being. Its shareholders will have to make money the old fashioned way.

CATEGORY

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