



## How to Profit From Canadian Oil Sands Ltd.

### Description

Ever since **Canadian Oil Sands Ltd.** (TSX:COS) received a \$4.3 billion offer from **Suncor Energy Inc.** (TSX:SU)(NYSE:SU), investors have been betting that a higher offer is on the way.

Is this a wise bet to make? Or is there an entirely different way to make money off of COS shares?

### Will a higher offer come?

There are certainly reasons to believe Suncor will up its bid. The company's management is very optimistic about long-term oil prices, and this is reflected by its actions. For instance, Suncor is pressing ahead with its oil sands mining project at Fort Hills, which requires much higher oil prices to be economic. The company even upped its stake in Fort Hills back in September.

And by every practical metric, Suncor is bidding less for COS than it paid for that Fort Hills stake. So, we know that Suncor is bidding less than what it thinks COS is worth.

Yet I still wouldn't bet on Suncor increasing its offer. The company had already offered a 43% premium to COS's previous closing price and believes that this should be enough. Suncor CEO Steve Williams has been repeating this constantly and has even traveled around the country, trying to bring COS shareholders onto his side.

So, if Suncor were to up its offer now, it would look like a real moment of weakness for Mr. Williams, and that would not help him when bidding for other companies down the road. In other words, he has made this somewhat personal, and it's now a matter of pride. I wouldn't expect him to back down now.

You shouldn't expect a higher offer from another company either. **Imperial Oil Limited** is the most likely target, but rumour has it the company is looking for thermal-based production, which COS does not have.

### How to make money

If Suncor withdraws its bid and no one fills the void, we could see COS's stock price plummet back to

where it was before this all began. That would mean a share price close to \$6.

The most effective way to make this bet would be a put option. Puts allow the holder to sell a particular stock for a fixed price by a certain date. So, if a stock declines, then a put option on the stock would increase in value.

To illustrate, you can buy a COS put option with a strike price of \$9 and an expiry date of December 18. If COS's share price declines to \$6 by that date, then the option will be worth \$3. And if you have an options trading account, you could buy the put for just \$0.40.

Options are extremely risky, so you shouldn't be betting huge sums of money. But this is still a better bet than buying COS shares.

## CATEGORY

1. Energy Stocks
2. Investing

## POST TAG

1. Editor's Choice

## TICKERS GLOBAL

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

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