



2 Companies That Imperial Oil Limited Should Buy

Description

Every day that oil prices remain as low as they are is another day that a small oil producer runs into further problems. The oil market is under significant pressure and companies around the world have laid off 250,000 people. But when there is blood in the water, there are opportunities for larger sharks to pick up some tasty pieces.

Imperial Oil Limited ([TSX:IMO](#))(NYSE:IMO) is one of the largest energy companies in North America. Even with the difficult market, Imperial Oil has been doing an efficient job of keeping its costs low. By using smart management moves it has been able to reduce recurring costs by \$1.1 billion mostly through a modified strategy on capital projects and supply-chain alterations.

Other companies have not had the same good fortune as Imperial Oil, which puts it in a great position to buy up cheap assets. Its competitor **Suncor Energy Inc.** has already made offers to buy distressed assets, so Imperial Oil should follow. There are two companies that I think Imperial Oil should keep its eye on.

The first company is **MEG Energy Corp.** ([TSX:MEG](#)), which is a small company that was doing incredibly well when oil was \$100+ a barrel. However, since the price of oil has dropped it has come under incredible stress. And unlike other companies that have hedge contracts to guarantee certain prices for oil, MEG doesn't have any. Therefore, where other companies are still making \$80 a barrel, MEG is stuck making market value.

The company has tremendously efficient assets at Christina Lake. Add in the \$5.07 billion in debt that MEG has and you have a company worth about \$8.5 billion. Imperial Oil could easily assume those costs without putting too much strain on its balance sheet.

The other company Imperial Oil should consider buying is **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE). Penn West is even cheaper than MEG Energy Corp., even when taking the debt into consideration. With a market cap of \$748.22 million and debt of only \$2.25 billion, the company could likely be had for approximately less than \$4 billion, and that's factoring in a premium for investors.

Either company would be solid takeovers. Because of how much debt they both carry compared to their market caps, it's easy to imagine that investors would want to salvage any sort of return rather than see the companies fail.

The reality is that the oil market is going to remain depressed for quite some time. There remains a significant glut in the market, which is keeping the price of oil down.

In the late 1990s, when the oil market was also dealing with deep price drops in oil, **BP** bought Amoco and Arco, **Exxon** bought Mobil, and **Chevron Corp.** bought Texaco. Big companies often come along with their war chests and buy up smaller firms. I imagine that Imperial Oil will look to make acquisitions sometime in 2016, especially if the oil price continues to remain low, and Penn West and MEG are two targets that would make sense for the company.

CATEGORY

1. Energy Stocks
2. Investing

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1. NYSEMKT:IMO (Imperial Oil Limited)
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