



## Canadian Oil Sands Ltd.: Where Is the White Knight?

### Description

Shares of **Canadian Oil Sands Ltd.** (TSX:COS) are drifting lower as the deadline approaches for the takeover bid by **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)).

### Syncrude troubles

Suncor and Canadian Oil Sands are partners on the beleaguered Syncrude oil sands project. Syncrude has been an operational nightmare for the better part of three years, and the downturn in the price of oil has put Canadian Oil Sands in a difficult situation.

The company controls about 37% of Syncrude, which is largest ownership position the project. That means Canadian Oil Sands has been on the hook for a significant part of the maintenance and capital expenditures to keep Syncrude running.

Back when WTI oil traded above \$100 per barrel, the inefficiencies at Syncrude were less of an issue, but the plunge in crude prices has meant severe pain for oil sands operators with high production costs.

Canadian Oil Sands is doing its best to reduce costs and hold on until oil prices recover, but the outlook isn't great and the company isn't bringing in enough cash flow to cover its expenditures.

For Q3 2015, Canadian Oil Sands had cash flow from operations of \$82 million and spent \$84 million on capital expenditures, plus another \$25 million on dividend payouts.

For all of 2015, the company expects to have 2015 production of 92-97 million barrels of oil, about in line with 2014 production. That doesn't sound bad, but guidance was reduced three times last year, and the final output number of about 94 million barrels came in near the low end of the final revision.

Capital expenditures are expected to be \$368 million for 2015 with cash flow from operations targeted at \$340 million.

Canadian Oil Sands says it can cover its costs if WTI oil is \$45 per barrel or higher.

## The buyout offer

Suncor owns 12% of Syncrude and is trying to boost its stake to 49%.

On October 5 Suncor made an all-share bid of \$6.6 billion for Canadian Oil Sands. At the time, the offer represented a premium of about 40% when compared to the pre-bid closing price of Canadian Oil Sands shares.

Suncor says the offer is fair and reflects the new reality of the oil market. Canadian Oil Sands has rejected the bid as being too low and has advised its shareholders to do the same.

Before the offer, Canadian Oil Sands shares traded at \$6.20. They rallied above \$10 per share on the news and on speculation that another bidder would boost the price even higher.

The expected white knight has not emerged and Suncor is sticking to its offer price. This has driven some fear into the market that a deal might not get done and the shares have pulled back to about \$8.70.

Suncor tried to buy Canadian Oil Sands earlier in the year at a higher price, but its advances were not well received.

Pundits have speculated that **Imperial Oil** might step up and make an offer. The company holds a 25% position in Syncrude and has the contract to operate the facility. That could still happen, but you would think the company would have made a move by now, especially if Suncor has been trying to buy Canadian Oil Sands for several months.

## Should you buy?

At this point, stepping in on the hopes of a larger takeover premium is risky. Anything could happen in the final days of the Suncor offer, but the downside risk is significant if Suncor walks and no other bidder emerges. I would avoid the stock at the current price.

## CATEGORY

1. Energy Stocks
2. Investing

## TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
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