



Will Canadian Oil Sands Ltd. Slide Back to \$6 Per Share?

Description

Suncor Energy Inc. ([TSX:SU](#))([NYSE:SU](#)) has a very clear message for **Canadian Oil Sands Ltd.** (TSX:COS) shareholders: if we don't get our way, you are going to lose a lot of money.

The message is not one to be taken lightly. Suncor's takeover offer represented a 43% premium to Canadian Oil Sands's previous closing price, so when the offer expires, its shares could go all the way back down to \$6. In fact, because oil prices have sunk since the offer was made, there's even more downside for Canadian Oil Sands shareholders.

Does this mean Canadian Oil Sands should accept Suncor's offer? And more importantly, should you buy Canadian Oil Sands shares?

Canadian Oil Sands's argument

It is no secret where Canadian Oil Sands's board and CEO stand on Suncor's offer; they call it "opportunistic" and claim it doesn't fully reflect the value of the company.

They certainly have a case to make. Only weeks before the bid, Suncor paid a much higher multiple when increasing its stake in the Fort Hills oil sands project. Canadian Oil Sands also trades well below replacement value. And when factoring in Suncor's optimism about future oil prices, it's clear the company is trying to buy Canadian Oil Sands for a song.

Furthermore, Canadian Oil Sands's management claims that Syncrude (its only asset) is on the verge of cutting costs significantly, and that Suncor exploited this "insider information."

Most importantly, Canadian Oil Sands claims that 25 other parties have shown interest, with four "highly credible" potential buyers signing confidentiality agreements. As Canadian Oil Sands's argument goes, a higher bid is on the way.

Suncor has a strong case, too

Meanwhile, Suncor sees no reason to raise its bid. With such a strong premium, which only looks

better as oil prices have fallen, management sees its offer as more than fair.

Regarding the “insider information” claim made by Canadian Oil Sands’s management, Suncor contends that Syncrude has underperformed for years and that any cost-cutting plan shouldn’t be taken for granted.

And while a number of parties have shown interest in Canadian Oil Sands, it has taken a long time for any confidentiality agreements to be signed. Besides, it’s not that common to see bidding wars emerge for oil companies like Canadian Oil Sands.

Why you should avoid Canadian Oil Sands

At the end of the day, there’s a decent chance that Canadian Oil Sands shares could slide all the way back down to \$6. And while a higher bid could emerge, there’s not much upside to compensate you for the risk.

I could end up being wrong and a bidding war could emerge. But at this point, I would advise staying away.

CATEGORY

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2. Investing

TICKERS GLOBAL

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

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