



Suncor Energy Inc. Should Target Penn West Petroleum Ltd.

Description

Suncor Energy Inc. ([TSX:SU](#))([NYSE:SU](#)) is not only Canada's largest energy company, but it also has one of the sector's best balance sheets. This puts CEO Steve Williams in an enviable position, one in which he can prey on weaker competitors. And that's what he's trying to do with his \$4.4 billion bid for **Canadian Oil Sands Ltd.** (TSX:COS).

Not everything is going his way. Canadian Oil Sands's management and board have rejected the takeover offer and have implemented a poison pill to thwart Suncor. Making matters worse, the poison pill lasts longer than the bid. Suncor has responded by asking regulators to throw the poison pill out, but such an outcome is very much in doubt.

If Suncor is unsuccessful, it can certainly extend the offer and hope to win over enough shareholders. Or it can raise its bid to woo Canadian Oil Sands's executives and the board.

But Suncor's strong position gives the company many options. And there's one path that's even better: Canadian Oil Sands could abandon the bid and go after **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE) instead.

Why Suncor should abandon its bid

Let's make one thing clear: even if Suncor succeeds in taking over Canadian Oil Sands, the company will still be on the hunt for acquisition opportunities. So the last thing it wants to do is project weakness by raising its bid. After all, if Suncor raises its bid, then every other takeover target will employ similar tactics as Canadian Oil Sands.

Instead, Mr. Williams should teach Canadian Oil Sands and its shareholders a lesson by showing them just how far a stock price can fall when a takeover attempt is abandoned. It would send a chilling message to the rest of the energy sector.

Why Penn West would make sense

Penn West actually has a lot in common with Canadian Oil Sands. The company has underperformed

for years and has struggled under the weight of low oil prices. The company's balance sheet has been a problem, resulting in a plummeting stock price. Also like Canadian Oil Sands, Penn West is also cited as a takeover target.

The numbers certainly add up. In fact, Suncor could offer Penn West shareholders a 50% premium and still get a far better deal than it would get from raising its Canadian Oil Sands bid. Best of all, Penn West's shareholders will have seen what happened to Canadian Oil Sands when it stood up to Suncor. So they will be swayed towards accepting the offer.

Interestingly, Penn West's Chairman, Rick George, used to be the CEO of Suncor. So it may be unlikely for his successor to challenge him with a hostile bid. But the economics of a deal make sense for both sides, and in any case, it's a much better move for Suncor than raising its bid for Canadian Oil Sands.

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