



## 3 Major Options for Imperial Oil Limited

### Description

As oil prices continue to languish, stronger players are relishing at the opportunity to pounce on weaker rivals. Of course, the most prominent example is **Suncor Energy Inc.'s** ([TSX:SU](#))([NYSE:SU](#)) attempt to acquire **Canadian Oil Sands Ltd.** (TSX:COS).

**Imperial Oil Limited** ([TSX:IMO](#))(NYSE:IMO) is another one of these strong players. Like Suncor, Imperial Oil has a big refining and marketing business (helping to cushion it from the shock of lower oil prices), it has a strong balance sheet, and it also has a strong share price. Consequently, the company is in a perfect position to make a big acquisition.

We break down Imperial Oil's options below.

#### 1. Bid on Canadian Oil Sands

Imperial Oil is often cited as the most likely white knight for Canadian Oil Sands. After all, Imperial Oil also owns a stake in the Syncrude joint venture and is the operator, too. And if Suncor succeeds in taking over Canadian Oil Sands, it would become the largest Syncrude owner, which may change the nature of the partnership.

But if Imperial Oil were to take over Canadian Oil Sands, its ownership share in Syncrude would rocket above 60%. This may be way too much exposure for Imperial Oil's taste, especially given Syncrude's historical lack of reliability. Besides, Imperial Oil may not want to pick a fight with Suncor.

#### 2. Bid on another company

With oil prices so low, Imperial Oil has many options as it hunts for acquisitions.

Two in particular that stand out are **MEG Energy Corp.** ([TSX:MEG](#)) and **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE). Both of these companies have very high-quality assets, but are struggling with their respective debt loads. Penn West in particular is very severely leveraged and has been selling assets to bring its balance sheet more in line.

Of course, both of these companies have very depressed share prices, which would allow Imperial Oil to avoid paying too high a price. And with Imperial Oil's deep pockets, Penn West's or MEG's assets could be more effectively exploited.

### 3. Sit tight

This is the strategy that Imperial Oil has employed so far, and it has worked to perfection. The company has essentially been betting that oil prices are nowhere near recovery and that weaker players will continue to see their prospects dim. That is exactly what has happened so far.

And if oil prices don't recover, then companies such as Penn West may find themselves staring bankruptcy in the face. Such an outcome would put its assets on the auction block, at which point Imperial Oil could fetch them for pennies on the dollar.

In any case, Imperial Oil is in a very enviable position. So if you're looking for a rock-solid energy stock, Imperial Oil is one of your best options.

### CATEGORY

1. Energy Stocks
2. Investing

### TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. NYSEMKT:IMO (Imperial Oil Limited)
3. TSX:IMO (Imperial Oil Limited)
4. TSX:SU (Suncor Energy Inc.)

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### Date

2025/08/23

### Date Created

2015/12/03

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