Should You Buy Canadian Oil Sands Ltd. After its Big Victory?

Description

The executives and board at **Canadian Oil Sands Ltd.** (TSX:COS) scored a major victory on Monday as the Alberta Securities Commission ruled that they can stall the takeover attempt by **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) for a month.

Canadian Oil Sands's poison pill will now expire on January the 4th.

So what exactly does this mean for Canadian Oil Sands and its share price?

Suncor's options

Suncor's bid is set to expire today, December the 4th. It three options: extend the bid, raise the bid, or abandon its efforts.

It's very unlikely that Suncor will submit a higher offer. CEO Steve Williams has repeatedly said that the current bid, which has a 40%+ premium built into it, is fair, and that he has no plans to raise it. So if he submits a higher offer, it would look silly on his part. Put simply, Mr. Williams has made this personal.

Suncor is much more likely to abandon its bid altogether. Oil prices have continued to fall since the initial offer was made, which makes the deal less attractive. Suncor also has plenty of other options; for example, it could buy back shares or pursue another acquisition. And at the end of the day, Canadian Oil Sands may not be worth the headache.

It's also possible that Suncor extends the bid. If this happens, the company would only have to wait another month for Canadian Oil Sands to court other suitors. If Canadian Oil Sands is unable to find a white knight, then Suncor may score the prize it has been seeking all along.

Unlikely to find a higher bid

Canadian Oil Sands will certainly do its best to find a higher bidder. But the company's chances are slim for a number of reasons.

First of all, there are plenty of targets for would-be acquirers. **Penn West Petroleum Ltd.** and **Baytex Energy Corp.** are just two examples. Secondly, since the oil price has continued to turn south, a wide premium may not be justified for Canadian Oil Sands's shares. Finally, bidding for Canadian Oil Sands would mean picking a fight with Canada's largest energy company, which could lead to problems down the road.

Downside for the shares

Canadian Oil Sands's shares trade at about a 6% discount to Suncor's offer. So if Suncor renews the bid, and it is accepted, then shareholders stand to make a small gain. If Canadian Oil Sands can find a higher bid, then there's even more upside.

That being the case, there's a lot more downside. Canadian Oil Sands traded at roughly $6 per share before Suncor stepped in with the offer. Thus if Suncor abandons its bid and Canadian Oil Sands is unable to find a rival suitor, then the shares could sink by close to 50%.

If you still think this is a far-off idea, then just look at what happened to **Pacific Production and Exploration Corp.** (then known as Pacific Rubiales). Back in July its stock price sunk more than 45% when its would-be acquirer abandoned a takeover offer, and the shares haven't recovered since. Canadian Oil Sands shareholders, be warned.

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