



Should Suncor Energy Inc. Really Be Thanking OPEC?

Description

After OPEC decided to keep the spigots open on Friday, oil prices have resumed their downward march. As of this writing, the WTI price stands at roughly US\$38 per barrel, while Brent is barely above US\$40.

As a result, **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) is more likely to be successful in its attempt to acquire **Canadian Oil Sands Ltd.** (TSX:COS). So does this mean that Suncor should be thanking OPEC?

Why OPEC may have sealed Canadian Oil Sands's fate

When Suncor made its \$4.3 billion offer at the beginning of October, it was unanimously rejected by Canadian Oil Sands's board and executives. They called the bid "opportunistic" and claimed it grossly undervalued the company. And since then, Canadian Oil Sands has been actively courting other suitors, trying to get a higher bid.

But as oil prices sink, heavily indebted producers like Canadian Oil Sands are affected much more severely than stable companies like Suncor. This makes Canadian Oil Sands's search for a white knight much harder, and it makes Suncor's offer look far more attractive.

We won't know how this turns out until early January. But if I were a Canadian Oil Sands shareholder, I would be tendering my shares at this point. I'm sure many actual Canadian Oil Sands shareholders think the same way.

Should Suncor really be thankful?

Suncor CEO Steve Williams is probably grateful for OPEC's decision. But should Suncor's shareholders really be happy?

After all, let's not forget what happened when the bid was announced: Suncor's shares fell by more than 2% that day, even though oil prices were rising at the same time. Clearly, the company's shareholders were not happy with its bid for Canadian Oil Sands. And that was when WTI was in the

mid-US\$40s.

Now that oil prices have fallen even further, Suncor's shareholders likely hate the deal even more. After all, Canadian Oil Sands estimates it would earn \$0.36 in free cash flow per share with WTI at US\$55. So even if oil prices climbed by 45%, Suncor's current bid would *still* be worth 25 times free cash flow. That's a ridiculously high price to pay for an oil company with few growth prospects.

How will this turn out for Canadian Oil Sands?

This story is still not over, and no one knows exactly what will happen. But there are some things we can be reasonably sure of.

First, Suncor is almost certainly not going to raise its offer. Second, Canadian Oil Sands will probably not find a higher offer from another company. Finally, Canadian Oil Sands's share price will get crushed if it remains independent.

By now it should be obvious that Canadian Oil Sands's best way out is to accept Suncor's offer. And Suncor shouldn't necessarily be celebrating.

CATEGORY

1. Investing

TICKERS GLOBAL

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

Category

1. Investing

Date

2025/07/20

Date Created

2015/12/09

Author

bensinclair

default watermark