Suncor Energy Inc. CEO Steve Williams Just Slammed Canadian Oil Sands Ltd.

Description

The war of words has heated up between **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) and **Canadian Oil Sands Ltd.** (TSX:COS). The latest rounds were fired by Suncor CEO Steve Williams in a letter sent to Canadian Oils Sands shareholders on Tuesday.

We take a closer look below at what Mr. Williams had to say. It does not make Canadian Oils Sands look good.

A lack of skin in the game

Canadian Oils Sands claims that even as a standalone company, it is worth far more than the $8.78 per share that Suncor's offer currently stands at. But as Mr. Williams points out, the entire Canadian Oils Sands board–including CEO Ryan Kubik–owns less than 0.1% of all outstanding shares.

A quick check of Canadian Oils Sands's filings confirms this. According to its last management information circular, the 10 board members own a total of 445,000 shares, worth roughly $4 million at today's prices. Included in this total is Mr. Kubik, who owns just under 200,000 shares.

There's no reason why Canadian Oils Sands's board shouldn't own more shares. Mr. Kubik himself made $5.8 million in total compensation from 2012 through 2014. And if Canadian Oils Sands's board members think that Suncor is making such a low-ball offer, why wouldn't they hold more shares? Wouldn't this be a golden investment opportunity?

An inability to create value

Mr. Williams didn't stop there. He claimed that Canadian Oils Sands "simply can't deliver value in the current 'lower for even longer' oil price environment."

He has a point. In this oil environment, one in which supply is plentiful and demand cannot keep up, we may see low oil prices for a very long time. And we'll only see higher prices once the weaker producers (those with high costs and too much debt) shut down. Canadian Oil Sands may be one of those weak producers.

In the meantime, Mr. Williams expects Canadian Oils Sands to continue bleeding cash next year, which will likely force further dividend cuts and/or another increase in debt. Once again, he is probably correct, and it's hard to see how that's the best outcome for Canadian Oils Sands's shareholders.

Falling short on promises

Canadian Oils Sands does not have a good track record–in each of the past four years, the company has had to lower its guidance multiple times, only to fall short at the end.

Let's look at this year as an example. Canadian Oil Sands initially guided for 95-110 million barrels of production at Syncrude in 2015. After the second quarter that range was narrowed to 96-107 million barrels. Then in late August a process fire at Syncrude's Mildred Lake upgrader caused production to fall by 80% in September. Canadian Oils Sands responded by saying that Syncrude's production would come in at the low end of guidance.

More recently, Canadian Oils Sands lowered its guidance for Syncrude yet again because of a buildup in coke deposit at its 8-2 coker. Now the company expects annual production of only 90 million barrels. It's the kind of story that Canadian Oils Sands shareholders have gotten used to in recent times.

No evidence of a better offer

Mr. Williams pointed out that Canadian Oils Sands is highly unlikely to get a better offer elsewhere–in fact, the company has had only two meetings with potential buyers. He likened this to someone selling his house and having only two showings in a couple of months.

And with oil prices having fallen 20% since Suncor initially made its offer, it's hard to imagine Canadian Oils Sands finding a better offer in the three weeks it has left to do so. At this point, it looks like game over for Canadian Oils Sands.

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