Here’s Why Suncor Energy Inc. Still Wants Canadian Oil Sands Ltd.

Description

Suncor Energy Inc. (TSX:SU)(NYSE:SU) is determined to get control of **Canadian Oil Sands Ltd.** (TSX:COS) at all costs.

What was already a frosty relationship between the two companies has gone even colder in the past weeks. Canadian Oil Sands chief executive Ryan Kubik has used the terms “desperate” and “exploitative,” whereas Suncor chief executive Steve Williams has fired back by saying that hoping for oil-price increases is poor corporate strategy.

Why does Suncor want Canadian Oil Sands?

In a word, Syncrude. Syncrude is one of the largest oil sands companies in the country. The project is a joint venture between the largest players in the oil sands. Canadian Oil Sands has a 37% stake in project, whereas Suncor has a 12% interest.

If Suncor were to acquire Canadian Oil Sands, Suncor’s stake in the project would increase to nearly 50%, eclipsing all other partners.

Another reason could very well be efficiency. Suncor is one of the most efficient operations around; it’s managed to get the cost per barrel down to a sustainable $27, which, unbelievably, is still profitable in the current environment. Even more impressive than this figure is the fact that the company thinks that there is still room to become even more efficient and drive costs down further.

Canadian Oil Sands, on the other hand, has costs per barrel in the mid to high $40s. This poses a huge opportunity for Suncor, which is at the ready with a significantly large war chest to spend on the acquisition.

The chain of events so far

Suncor first attempted to get a friendly deal done last spring. When that failed Suncor went directly to shareholders on October 5. Canadian Oil Sands responded by dropping a poison pill on the deal, noting that any offers needed to be open for 120 days. Suncor’s offer was for 60 days, which effectively was made invalid.

Suncor then responded by pushing the matter to a hearing of the Alberta Securities Commission. The commission did their part and allowed the bid to be extended until January 6, 2016. The pressure on Canadian Oil Sands was increased even more when Suncor wrote a stinging letter to shareholders, in which the consequences of not accepting the deal were laid out to shareholders:

“You will be left holding shares in a company which has demonstrated negative free cash flow, about $2.3 billion in debt that is already just one notch above ‘junk’ status, and a strategy based almost entirely on hope. Hope that oil prices will rise and hope that Syncrude will sort out its ongoing operational challenges.”

Canadian Oil Sands has since responded with its own letter in an attempt to calm shareholders down by assuring them that the company can and will cope with lower crude prices, and that the company will thrive once prices recover.

The offer that is on the table for investors is set to expire on January 8, 2016. Suncor is currently trading at $36.48, only down year-to-date by 1%. Canadian Oil Sands on the other hand, trades at $8.54, down by over 18% for the year.

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