



Will Canadian Oil Sands Ltd. Rise 10% or Fall 40%?

Description

For **Canadian Oil Sands Ltd.** (TSX:COS) and its shareholders, crunch time has come. The company's poison pill, meant to thwart a hostile bid by **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)), expired on Monday. And Suncor's offer expires on Friday.

We take a look below at the different possible outcomes.

1. An acquisition and a slight gain for COS shareholders

Suncor is offering a quarter of its own shares (currently trading at \$35.40) for each COS share. Meanwhile, COS shares are trading for \$8.05. Based on these numbers, COS shareholders would gain 10% if Suncor's bid is accepted immediately.

Given the short time frame involved, there's a clear opportunity for COS shareholders to make a very attractive return. But it's not a foregone conclusion. Suncor's bid requires two-thirds of COS shareholders to tender their shares, and some have already indicated their disapproval.

For example, billionaire Seymour Schulich (who owns 5% of COS's outstanding shares), has referred to Suncor's bid as a "no-ball offer." And Burgundy Asset Management, which also owns a large stake in COS, has also publicly denounced the offer.

Meanwhile, COS has aggressively attacked the offer, calling it exploitative, opportunistic, and inadequate. The company claims (correctly) that if oil prices rebound to levels seen two years ago, then Suncor will have effectively stolen COS for pennies on the dollar. And remember, anyone who owns COS is probably very bullish on oil prices.

2. No acquisition and a big loss for COS shareholders

COS claims that in the long run, it would be better off as an independent company. But in the short run, shareholders would get a painful blow.

To help put a number on this, COS traded for just over \$6 per share when the Suncor bid was

announced in early October. And since then oil prices have fallen by more than 20%.

Because COS is so heavily levered to oil prices, the company's stock would probably have fallen by more than 15% over this time frame. Thus if the Suncor bid is rejected, a \$5 share price is a distinct possibility. That's a fall of nearly 40%.

3. Another offer? Don't count on it

When Suncor first launched its bid, investors generally thought a higher bid was coming either from Suncor or from another company. But with oil prices decreasing so much, this outcome is now extremely unlikely. Besides, if another company were interested in buying COS, it would have made an offer by now.

And if Suncor's bid is rejected, the company has no plans to make a higher offer. Instead, it will simply let COS's share price collapse. Then the company could simply make another "opportunistic" bid for another troubled oil company.

So if I held COS shares, I would sell them this week before it's too late. Time is running out.

CATEGORY

1. Dividend Stocks
2. Investing

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1. Editor's Choice

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