Suncor Energy Inc. Could Bid for Penn West Petroleum Ltd. Next

Description

As the saga between **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) and **Canadian Oil Sands Ltd.** (TSX:COS) draws to a close, it's looking increasingly unlikely that Suncor will be successful in its takeover attempt.

We've already seen major shareholders come out against the deal. Furthermore, Canadian Oil Sands is largely held by retail investors who tend to have more of a wait-and-see approach. And let's not forget that most Canadian Oil Sands investors bought the stock for more than $10. So if they accept Suncor's offer, that would mean swallowing a loss, which is never an easy thing to do.

If Suncor's bid does fail, the company has no plans to increase its bid. After all, there are plenty of opportunities elsewhere. We take a look at one such company below that Suncor could target next should its Canadian Oil Sands bid fail.

Penn West

If you ask Suncor CEO Steve Williams why he's targeting Canadian Oil Sands, he'll talk about the synergies that could be exploited should the two companies combine. But let's be honest. Suncor's prime motivation for buying Canadian Oil Sands is its depressed share price.

It's no wonder Mr. Williams said there are plenty of opportunities. With oil prices so low, there's no shortage of energy companies with weak balance sheets and depressed share prices.

Penn West Petroleum Ltd. (TSX:PWT)(NYSE:PWE) is just one example. The company has a lot in common with Canadian Oil Sands: a checkered past, a weak balance sheet, high exposure to oil prices, and a severely depressed share price.

In fact, Penn West's shares have declined by 95% over the past five years. And now they are starting to look seriously undervalued. Even after factoring in debt, the company trades for roughly $33,000 per daily barrel of production. That's far less than the price it got for its two recent asset sales and far less than similar energy producers.

And let’s not forget that former Suncor CEO Rick George is also the chairman of Penn West. So there’s no lack of familiarity between the two companies.

A couple of caveats

There are a couple of things that make Penn West less attractive than Canadian Oil Sands.

First of all, Canadian Oil Sands is involved in oil sands mining, which means it can produce oil for a long time at a relatively low cost. Penn West’s reserves are further underground, meaning it must drill for its oil. Therefore, the company has to keep drilling new wells just to keep production constant. Secondly, there may not be any synergies between Suncor and Penn West.

A warning

It would be unwise to buy a stock just because you think it will get taken out. But when looking at Penn West, the company clearly trades at a very depressed share price. And if Canadian Oil Sands offers the most value as an independent company–as its CEO claims–then the same argument should apply to Penn West as well.

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