



What Are the Chances of Suncor Energy Inc. Acquiring Canadian Oil Sands Ltd.?

Description

On Friday **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) extended its offer for **Canadian Oil Sands Ltd.** (TSX:COS) until January 27. Of course, this means Suncor has not yet gotten enough support from Canadian Oil Sands shareholders.

So what happens now? Will Suncor succeed in taking over Canadian Oil Sands? Or will this all come to nothing?

A long way to go

We do not know how many Canadian Oil Sands shares were tendered—that number was not made public. But according to *The Globe and Mail*, an anonymous source put the number between 35% and 40%. This source also said, “It’s clear shareholders have rejected the offer.”

Canadian Oil Sands’s board seems to agree. In a press release, Chairman Donald Lowry said the company has received “overwhelming support” from its shareholders. Such bravado is certainly an indicator that the bid is in trouble. Meanwhile, Suncor made no comments in its press release, only saying that the bid is being extended.

Suncor has not given up entirely. So that indicates there’s some chance of success. But given that its offer requires two-thirds support, the odds don’t look good.

Suncor’s best chance

By now it’s looking very unlikely that two-thirds of shares will be tendered. But Suncor has one alternative for gaining control of Canadian Oil Sands: it can lower the threshold.

To illustrate how this would work, let’s say that 51% of Canadian Oil Sands shares are tendered. Suncor could then lower its threshold from two-thirds to 50.1%. Then the company could extend its bid for another few days.

In this scenario, Suncor would acquire a majority of Canadian Oil Sands shares, thus gaining control of

the company. Then Suncor could exploit all the synergies between the two firms. The only downside would be that any Canadian Oil Sands shareholders who don't tender are under no obligation to sell their shares. So Suncor wouldn't be able to gain 100% ownership of Canadian Oil Sands, at least not without sweetening its offer.

This kind of scenario has played out before. For example, when **First Quantum Minerals Ltd.** ([TSX:FM](#)) made a hostile bid for Inmet Mining, roughly 60% of Inmet shares were tendered. So First Quantum lowered its threshold to 51% and extended its bid for 10 days.

Oddly enough, a majority of remaining shareholders then tendered, realizing the game was over. Thus First Quantum was eventually able to gain 100% control. But Suncor has much less support than First Quantum had, so gaining 100% control of Canadian Oil Sands will always be a long shot.

The odds

At this point, it looks like Suncor will need to take a page out of First Quantum's playbook. Otherwise, its chances are practically nil.

But given what we know, it's looking unlikely that Suncor can even get to 50%. The extension looks more like a last-ditch attempt, one that will need another plummet in oil prices to succeed.

Ironically, if Suncor's bid fails, then its share price will probably react positively, while Canadian Oil Sands's shares will plummet. Make sure you keep this in mind before picking sides.

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