What Suncor Energy Inc. Could Learn From JPMorgan Chase & Co.

Description

As oil prices continue to plummet, Canada's energy producers are finding themselves in serious trouble. But one company continues to stand out among the rest: **Suncor Energy Inc.** (TSX:SU)(NYSE:SU). The energy giant's solid balance sheet and diversified business model have put the company in a strong position, one where it can prey on weakened competitors. We've already seen evidence of this with its hostile bid for **Canadian Oil Sands Ltd.** (TSX:COS).

Back in 2008 **JPMorgan Chase & Co.** (NYSE:JPM) was in a very similar position. The bank, with its "fortress balance sheet," stood out at a time when its peers were on the verge of collapse. And JPMorgan's path can provide some valuable lessons for Suncor.

Bear Stearns and Washington Mutual

At the beginning of 2008 Bear Stearns was in trouble. The bank had gone practically gone all-in on mortgages and as a result was short of capital. Fearing a nasty domino effect, government officials didn't want Bear to go under. So they pressured JPMorgan to buy Bear Stearns. Eventually, JPMorgan agreed, buying out Bear for a mere $10 per share. To put that in perspective, Bear's stock traded for $159 less than a year earlier.

Then later in 2008, Washington Mutual fell into trouble. But this time, JPMorgan waited for the company to fail completely before buying the bulk of its operations from the FDIC. This allowed JPMorgan to expand its branch network, particularly on the west coast, at an absolute bargain. It also meant that Washington Mutual's shareholders and executives were owed nothing.

Looking back, the Bear takeover had mixed results for JPMorgan; probably the biggest benefit was JPMorgan's enhanced reputation. But the Washington Mutual transaction was an undeniable success.

The lessons for Suncor

It’s unfair to compare Canadian Oil Sands to Bear Stearns, especially given the latter’s shady business practices. But like JPMorgan’s takeover of Bear Stearns, Suncor’s takeover of Canadian Oil Sands would result in some big obligations to debt holders.

And if Suncor were to wait, it would likely witness the failure of a few energy companies. That would allow Suncor to pick up some cheap assets without assuming any more debt, much like JPMorgan’s takeover of Washington Mutual.

The golden opportunity for Suncor

At this point, it looks like Suncor’s bid for Canadian Oil Sands will fail. And that may end up being good news. The bid was never particularly popular with Suncor’s shareholders anyways, and with oil prices falling by a third since the offer date, there will likely better acquisition opportunities. There may even be some nice opportunities to buy assets out of bankruptcy. Suncor should be licking its chops.

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