



Here's What Suncor Energy Inc. Should Buy Next

Description

Suncor Energy Inc. ([TSX:SU](#))([NYSE:SU](#)) was finally able to convince **Canadian Oil Sands Ltd.** (TSX:COS) to accept its merger proposal after several months of trying. Now that it has sealed that deal, it might be time to start hunting for another target. Here's one company that really seems to be the type of target that Suncor likes to go after.

A similar draw

The reason Suncor wanted to win control of Canadian Oil Sands is because its primary asset is a 37% stake in Syncrude. That's a huge draw for Suncor because it owns 12% of the asset, which the company feels isn't being operated to its full potential. In its estimation, if it boosted its stake it could have more say in how the joint venture is operated.

Having said all that, even after combining with Canadian Oil Sands, Suncor would only control 49% of Syncrude, which is less than a majority stake. That's one reason why Suncor should consider acquiring **Murphy Oil Corporation** ([NYSE:MUR](#)), which owns a stake in Syncrude. While Murphy Oil's stake is only 5%, that would be enough to push Suncor over the top and become the majority stakeholder in Syncrude.

But wait, there's more

In addition to that, unlike Canadian Oil Sands, Murphy Oil is not a one asset company. Instead, it has a diverse portfolio of assets across the globe—some of which would be particularly important to Suncor.

For example, Murphy Oil owns a 10.475% stake in Terra Nova and a 6.5% stake in Hibernia, which are oil fields located off Canada's east coast. That's important because Suncor also owns a stake in these fields; Suncor is the operator and 37.675% stakeholder of Terra Nova as well as a 20% partner in Hibernia. So, acquiring Murphy Oil would give Suncor a bigger stake in these two assets in addition to boosting its stake in Syncrude.

On top of all this, Murphy Oil owns several key assets in Canada, including 117,000 net acres in Montney shale gas play as well as 100% of the Seal heavy oil project, both of which are in western

Canada. Moving farther south, Murphy Oil owns a large acreage position in the Eagle Ford Shale as well as a position in several oil fields in the Gulf of Mexico. More globally, it owns assets in Southeast Asia, the Atlantic Margin, and Australia.

In acquiring Murphy Oil, Suncor could broaden its global reach and diversify away from some of its more troubling locales, such as the North Sea area and Libya. Further, it would acquire some compelling growth assets. However, given that some of these assets might not be a perfect fit for Suncor, such as the Eagle Ford Shale, it could just sell those assets, enabling it to keep the only what it views as the best long-term fits.

Investor takeaway

While there has always been a strong strategic rationale to acquire Canadian Oil Sands, Suncor still comes up a bit short in its bid to control Syncrude. That's why a follow-up acquisition of Murphy Oil makes a lot of sense.

Not only would it then have a majority stake in Syncrude, but it could boost its stakes in two other key Canadian offshore assets. Further, it would diversify its asset base by adding key shale plays. Those assets would provide the company with a multitude of options, which is something that no oil company can ever have enough of.

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TICKERS GLOBAL

1. NYSE:MUR (Murphy Oil Corporation)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:SU (Suncor Energy Inc.)

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