Imperial Oil Limited Is Ready to Pounce

Description

As oil prices continue to plummet, some energy companies are increasingly up against the wall. But **Imperial Oil Limited** (TSX:IMO)(NYSE:IMO) has held up remarkably well.

There are a couple of reasons for this. First of all, the company has an outstanding balance sheet–entering 2015, the company had roughly $7 billion in debt, which is equivalent to only 23% of total capital. Secondly, the company has a large downstream business (consisting mainly of the Esso gas stations) that has benefited from falling oil prices. To top it all off, the company has some very low-cost operations.

Why hasn't Imperial made an acquisition?

Normally when an industry is suffering, it provides the strongest players with an opportunity to gobble up its weaker competitors. And this energy environment is certainly no exception. Of course, the most prominent example is **Suncor Energy Inc.'s** $4.2 billion takeover of **Canadian Oil Sands Ltd.**

Many analysts expected Imperial to make a competing bid. But the company stayed on the sidelines, just as it has done throughout the last 12 months.

There are a couple of possible reasons why Imperial hasn't acted. First of all, the company is focused on the Kearl expansion project, which so far has performed better than expected. Secondly, Imperial may have been waiting for equity prices to go lower.

Whatever the reason, Imperial's strategy has paid off. As oil prices continue to plunge, equity prices have come down as well. If Imperial was looking to buy a company, that company's price tag has certainly come down.

Will we see some activity this year?

At this point, it looks like Imperial has some golden opportunities on its plate. But remember, a similar argument could have been made last year when oil was at US$50. Imperial stayed on the sidelines then and may opt to bide its time again.

Besides, if the saga between Suncor and Canadian Oil Sands is any indication, many troubled producers (i.e.; the ones that make the best takeover targets) would prefer to stay independent. At the very least, there is some optimism that oil prices will recover, which likely makes a takeover more difficult.

It’s not as if Imperial isn’t looking–one analyst suggested last year that Imperial is looking for thermal assets. But the company may not have the stomach for a hostile transaction, and it may believe that assets will get cheaper. The bottom line is that we shouldn’t be holding our breath.

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1. Editor's Choice

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