



3 Ways Canadian Oil Sands Ltd. Shareholders Profit From Suncor Energy Inc.'s New Offer

Description

Things have changed since **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) made its original bid for **Canadian Oil Sands Ltd.** (TSX:COS) back in October. At the time of the original deal, WTI crude was trading close to \$47 per barrel. If prices stayed at those levels or rose, Suncor's offer of 0.25 shares for every Canadian Oil Sands share would have almost certainly capped its upside.

Now, with oil prices at \$29 per barrel and consensus forecasts for 2016 turning increasingly bearish, the new Suncor offer of 0.28 shares for every Canadian Oil Sands share seems increasingly like a life raft for Canadian Oil Sands shareholders.

Unfortunately, the premium Canadian Oil Sands shareholders would have received has evaporated for now (since 0.28 Suncor shares equals around the same price Canadian Oil Sands is trading at today), but there is still opportunity in this offer for Canadian Oil Sands shareholders.

The deal will cap Canadian Oil Sands's downside

If 2016 were to see oil prices of \$50 or \$60 per barrel, Canadian Oil Sands shareholders would likely have seen large upside. According to Canadian Oil Sands guidance documents, \$50 oil in 2016 would have given Canadian Oil Sands \$1.31 in cash flow per share—a huge upside to 2015's estimated cash flow of \$0.7 per share.

At \$1.31 per share, Canadian Oil Sands would be trading at around 6.4 times its 2016 cash flow. With Canadian Oil Sands's average over the past seven years being around 11 or 12 times cash flow, the company would likely see its multiple expand as the company returns to positive cash flow growth for the first time in years.

However, \$50 or \$60 per barrel seems increasingly less likely for 2016. Most analysts are forecasting an average of about \$40 for 2016 with some predicting \$30 per barrel or lower. This bearish sentiment is based off of record crude inventories at Cushing and rising OPEC production that will offset declining U.S. production.

If oil were \$40 per barrel this year, Canadian Oil Sands would earn cash flow per share of \$0.53. At the current multiple of 6.4 times cash flow, this would lead to a Canadian Oil Sands share price of \$3.40 per share.

By trading for Suncor shares, Canadian Oil Sands shareholders will see little downside in a weaker pricing environment. Suncor had the least-dramatic price decrease in response to the oil crisis of its peers thanks to its integrated business model and excellent balance sheet.

Canadian Oil Sands shareholders will get a dividend hike—and security

Currently, Canadian Oil Sands pays out a dividend of \$0.2 per share annually. This compares to \$1.16 per share for Suncor. With Suncor's new offer of 0.28 shares for every Canadian Oil Sands share, Canadian Oil Sands shareholders would receive the equivalent of 28% of Suncor's dividend, or \$0.32 per share annually.

This represents a 60% dividend hike for Canadian Oil Sands shareholders by accepting the offer. Not only will Canadian Oil Sand shareholders receive a higher dividend, they will receive one of the most secure (if not the most secure) dividends in the Canadian oil industry.

Suncor's dividend has been on a steady growth trajectory with its most recent increase in July 2015, at a time when many producers were cutting their dividend.

Canadian Oil Sands shareholders have upside with the offer

Firstly, Canadian Oil Sands shareholders will receive a premium depending on what Suncor shares are trading at (Canadian Oil Sands shareholders have already seen their shares rise by 42% as a result of the deal).

Canadian Oil Sands shareholders will also see a gain as their new Suncor shares appreciate in value. It is true that Suncor shares are not nearly as sensitive to the price of oil as Canadian Oil Sands shares were, but Suncor shares will appreciate with the price of oil and as it grows its production and uses its integrated business model to generate value for shareholders.

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2. TSX:SU (Suncor Energy Inc.)

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Date

2025/09/17

Date Created

2016/01/27

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