MEG Energy Corp (TSX:MEG) Up Big Time After Aggressive Offer From Husky Energy Inc. (TSX:HSE)

Description

Husky Energy Inc. (TSX:HSE) is serious about buying **MEG Energy Co** (TSX:MEG), as it has made a hostile bid of $3.3 billion to acquire one of the key players in the oil and gas industry in Canada. Its initial offer, which was proposed to MEG's board of directors, ultimately went nowhere and now Husky's CEO Rob Peabody has decided to be more aggressive and make the pitch directly to the company's shareholders instead.

In the past three months, MEG's stock has plummeted more than 26%, and so a deal offering shareholders $11 a share will be awfully enticing and would mean a return to a value near the stock's 52-week high of $11.51.

What does this mean for investors?

From an investment point of view, I see this as a really good option for these two companies to join together and create some efficiency and an opportunity to generate more growth while also driving down costs. While both MEG and Husky have survived the downturn, it's clear that things in the oil and gas industry (at least in Canada) aren't getting better in the near term. By joining forces, these two companies will have better odds of being successful and growing in value.

With more resources and cash, a combined company would be able to take on more investment in the oil sands, which could mean more growth for the industry as a whole. There's still a lot of risk investing in oil and gas stocks today, as even the biggest names have struggled, suggesting that investor confidence for the industry remains very low.

Canceled and stalled pipelines have hurt much of the industry's growth prospects. When combined with companies scaling back their investment dollars, many investors are simply waiting on the sidelines for something to jumpstart the industry before making any big buys.

However, the danger in waiting too long is that when conditions become more bullish, stocks couldtake off suddenly and the opportunity to earn a good return could be long gone.

Valuations in oil and gas are low, with many good deals to be found out there. While there may be some risk out there today, it could be a good time to lock-in a long position and wait for the industry to pick up.

Bottom line

MEG’s stock was up around $11 in early trading on Monday, suggesting that many investors believe the deal will happen, and for good reason, as it offers shareholders an opportunity to cash out near the high for the year.

If oil and gas stocks continue to struggle, then consolidation might be the one approach that could help unlock some additional value for shareholders, and so we could see more of that take place, especially if stocks fail to progress despite a rising price of oil.

I still believe that now is a good time to invest in oil and gas as despite a focus on trying to become less dependent on oil, it’s still a big part of our day-to-day lives, and that demand isn’t going anywhere anytime soon.

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