Which Oil Company Will Exxon Mobil (NYSE:XOM) Buy Next?

Description

Exxon Mobil (NYSE:XOM) is one of the largest oil companies in the world. Only state-run businesses like Saudi Arabia's Aramco give it a run for its money.

With this much financial power, it's not surprising that Exxon has gobbled up its competitors over the years.

Its biggest recent acquisition was the 2009 purchase of XTO Energy. The deal was valued at $36 billion, involving the issuance of 416 million Exxon shares and the assumption of $11 billion in debt.

It's been a quiet decade since that acquisition, but Exxon is increasingly focused on North America. Jack Williams, Exxon's senior vice president of downstream and petrochemicals, noted late last year that the company could be interested in making more acquisitions.

"We've got a lot on our plate right now, but we continue to look," Williams said.

Williams specifically cited "unconventional" plays as potential areas of interest, creating the possibility that Exxon could purchase one of many Canadian operators.

Here are three oil stocks Exxon may be interested in buying — likely at a premium price.

Husky Energy (TSX:HSE)

Husky could be a perfect fit for Exxon. With a market cap of $13 billion, Husky is a big player in Canada, but Exxon could snap up the company without thinking twice. This week, Exxon's valuation exceeded $300 billion.

The biggest advantage of acquiring Husky's assets is that Exxon would immediately have access tothe entire value chain of Canadian oil. This is attractive considering Canadian oil trades at a discount to market prices. By controlling the entire value chain, however, Husky is able to avoid these pricing pitfalls.

The company's best asset is its refinery arm. Last quarter, the company generated more than $100 million in free cash flow largely due to strong refinery margins.

By acquiring Husky Energy, Exxon wouldn't have to worry about how its operations with integrate with its existing businesses.

Crescent Point Energy (TSX:CPG)(NYSE:CPG)

With a valuation of just $2.7 billion, Crescent Point would be the easiest acquisition on this list. Fool contributor Andrew Walker recently named Crescent Point a potential takeout candidate.

"Crescent Point owns attractive light-oil reserves and the new management team is working hard to shore up the balance sheet," he wrote. "Rising margins will help make the job easier and Crescent Point could become a takeover target."

Due to financial constraints, Crescent Point has limited its spending to just three high-quality projects in Saskatchewan. With 650,000 net acres of land in Alberta and Utah, however, the company has plenty of room for growth.

Exxon could provide that capital immediately, realizing the full value of Crescent Point's discounted assets.

Encana (TSX:ECA)(NYSE:ECA)

This is perhaps the wildest pick on this list, but there are plenty of reasons to believe it could happen.

Encana's $13 billion price tag would be a bargain for Exxon shareholders. The company's executives agree, opting to start a $1.25 billion share buyback, roughly 10% of the outstanding shares.

In April, I concluded that Encana shares were still trading at a steep discount despite its swing to profitability. Surging free cash flow should give the company plenty of flexibility over the coming years, even if the market won't reward it yet.

"In a troubled Canadian energy sector, Encana looks like a diamond in the rough," I wrote. Don't be surprised if Exxon forces shares higher through an acquisition offer.

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