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Suncor to Canadian Oil Sands Holders: Hope `Not a Strategy'

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Suncor Energy Inc. wants shareholders of Canadian Oil Sands Ltd. to weigh its C$4.7 billion ($3.5 billion) takeover offer closely and reject a strategy that relies on the "hope" of better performance.

Suncor appealed directly to Canadian Oil Sands shareholders in a letter Thursday after two offers earlier this year were rejected and last month's hostile bid was met with a poison-pill defense put up by its management and board. Suncor says it will devote more resources to fixing an oil-sands mining project co-owned by seven companies after it boosts its stake to 49 percent from 12 percent by taking over Canadian Oil Sands, the largest shareholder.

The battle over Canadian Oil Sands and its ownership of the bitumen mining operator Syncrude comes as the industry struggles with low oil prices that make most expansions too costly, and even some existing production unprofitable. Canadian Oil Sands says Suncor is paying brokers to push the deal and that higher prices will allow its shareholders to benefit more than they would owning Suncor stock.

"Hope isn't a strategy," Suncor said in the letter. "If you take your board's advice and 'do nothing,' you risk that Canadian Oil Sands' board and management will carry on as they do today, getting paid a significant amount of money to provide quarterly updates on what has been consistently disappointing performance of the company's single asset, over which it has little control."

Suncor, Canada's largest oil producer, is paying brokers 5 cents a share to help convince holders to back the takeover, Canadian Oil Sands said on its website.

Undervalued Bid

"Fearmongering will not breathe life into a dead offer," Canadian Oil Sands Chief Executive Officer Ryan Kubik said Thursday in a statement after the market closed. Suncor is "trashing Syncrude and COS at every turn yet desperately trying to scare and mislead shareholders in an urgent sale."

Broker fees are the norm in Canadian takeover bids, according to Suncor spokeswoman Sneh Seetal.

"The purpose is to compensate brokers for reaching retail shareholders so that they may have an opportunity to consider receiving the value of the offer," Seetal said in an e-mail.

Suncor fell 2.4 percent to C$37.29 at the close in Toronto. Canadian Oil Sands declined 2.1 percent to C$9.34.

The offer is “full and fair” and provides a 57 percent premium over the pre-bid price for a stake in a “financially stronger, more diverse and more stable company,” Suncor said. Canadian Oil Sands has a record of “underperformance, financial challenges,” and vulnerability to low oil prices, Suncor added.

Winning Bidder

“Suncor is likely going to be the winning bidder because there are no other logical buyers,” said ***Nima Billou***, an analyst at ***Veritas Investment Research*** in Toronto, who recommends Canadian Oil Sands shareholders tender their stock. Canadian Oil Sands management is opposing the deal because they “don’t want to be seen accepting a lower offer” after higher bids earlier this year, ***Billou*** said.

Suncor has asked Alberta regulators to strike down the target’s new shareholder rights plan aimed at preventing its takeover. The Alberta Securities Commission will hold a hearing on Nov. 26 to consider the so-called poison pill adopted by the Canadian Oil Sands board last month. The hearing follows Suncor’s application for an order to cease the new rights plan.