

Total Eyes Bigger Fort Hills Oil Sands Stake After UTS Deal

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OTTAWA (Dow Jones)--Total's hostile bid for oil sands company UTS Energy Corp. (UTS.T) may be a springboard for a much-bigger deal, but shareholder resistance threatens to complicate the French oil major's ambitions.

In the first takeover attempt since plunging crude prices cracked down on Canada's oil sands industry, Total launched a C\$617 million all-cash bid for the Calgary-based firm late Tuesday.

UTS's main asset is a 20% stake in the delayed Fort Hills project in northern Alberta, part of which has been put on hold after costs rocketed north of C\$28 billion.

But the company's biggest shareholder has already come out against the deal, calling the C\$1.30 a share price "far too low." The price represents a 57% premium to UTS's closing price Tuesday, though shares more than doubled on news of the bid Wednesday.

"Such a low bid has no chance of being successful, even in this depressed market - I'd be shocked if other shareholders accepted it," said Greg Boland, chief executive of Toronto's West Face Capital Inc. which owns 10% of UTS.

Analysts agree - one said UTS would be "going for a song" - and reckon that Total has opened up the field to competitive bids by setting such a low bar. Fort Hills project leader Petro-Canada (PCZ) has already ruled itself out, saying it is "happy with our 60% stake."

Alberta's oil sands companies have been squeezed by crude's freefall from July's near \$150-a-barrel record high, derailing nearly C\$200 billion in proposed developments, according to estimates by Merrill Lynch. The oil sands represent the biggest crude reserve outside Saudi Arabia, but extracting the sludgy bitumen is costly, with new projects likely needing \$80 a barrel oil prices to turn a profit. Meanwhile, slumping market valuations have created a wealth of takeover opportunities for cash-rich oil majors, but Total is the first to try and snap up a bargain in the once booming industry.

The French company holds extensive leases near the Fort Hills site, notably majority stakes in the oft-delayed Joslyn and Northern Lights oil sands mines. Total is already considering "the possibility of acquiring an additional interest" in Fort Hills, spokesman Paul Floren said. It is likely eyeing the 20% ownership of struggling mining firm Teck Cominco Ltd. (TCK) and possibly a slice of Petro-Canada's interest as well.

"Total has no interest in being a 20% partner in Fort Hills," Boland said. "They presumably want to become a 50% partner."

Shareholder Revolt

But first Total needs to win over UTS shareholders. The deal offers little recognition of some C\$300 million in cash holdings and UTS' favorable terms within the Fort Hills partnership, and almost none to its extensive asset base.

"The offer that's really on the table is for a couple of hundred million dollars...so it's not that lucrative for UTS shareholders," said **Sam La Bell, vice president at Toronto-based Veritas Investment Research Corp.** "But they're in a bind because there's not much UTS can do while Fort Hills remains in limbo."

A counterbid could certainly perk up the bid, and several analysts reckon Royal Dutch Shell PLC (RDSA) - the third-biggest producer in the oil sands - makes a logical fit. The Anglo-Dutch major has assets

"wedged in" between Fort Hills and two other leases - dubbed Equinox and Frontier - that UTS hopes to develop with Teck Cominco, noted Arthur Gray, a Calgary-based associate analyst with Canaccord Adams.

"Strategically, from a land position, it makes sense," Gray said. "And Total's bid is very low, these are cheap barrels."

Shell spokeswoman Kirsten Smart said the company doesn't comment on speculation.

Even without an outside bid, shareholder resistance may pressure Total into raising its initial price, resurrecting memories of the company's acquisition of oil sands firm Synenco Energy Inc., the former owner of the Northern Lights stake, last summer. Two of Synenco's biggest shareholders repeatedly refused to tender their shares, forcing Total to extend its initial offer three times before raising the offer price.

Some 40% of UTS shareholders are considering rejecting the bid as too low, said a person who spoke on condition of anonymity, which would prevent Total from winning the necessary two-thirds support for the deal.

And they may see a better offer, though Total will want to avoid developing a reputation for caving to shareholder demands.

"Total didn't call the offer best and final, which is a good sign that there's more room to raise," said a person familiar with the company.

Next Up: Teck?

If the UTS deal does go through, Total may try to scoop up Teck's oil sands assets shortly afterward. Once considered the solid partner in Fort Hills, the Vancouver-based mining company is now laboring under massive debt following a recent acquisition.

Teck's Fort Hills stake could be among the asset sales being considered to help pay off a C\$5.8 billion bridge loan, which is due in October.

"We can't comment on the specifics of the assets...but at this point we're keeping our options open," Teck spokeswoman Sarah Goodman said.

Shares jumped 6.3% on the Toronto Stock Exchange Wednesday as investors speculated that Teck could be next in Total's sights. Goodman declined to comment on whether Total had already approached the company.

Given Teck's financial position, however, the company would likely be more than happy to sell its Fort Hills stake, relieving itself of billions of future capital commitments. Total could probably buy Teck's 50% shares in the Equinox and Frontier projects as well.