NICKLE'S
DAILY OIL BULLETIN

July 14, 2010
Contents | Previous Page | Next Page

Producer Equity Issues Set Record in First Half

By James Mahony

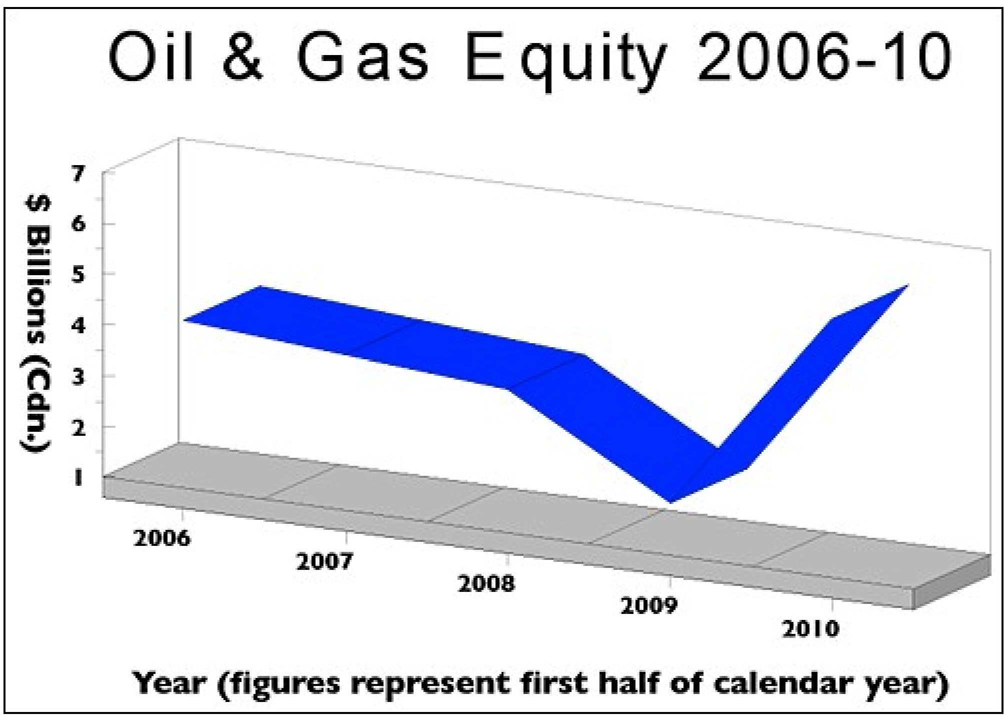
Equity financings in the oilpatch rose sharply in this year's first half, but a sputtering U.S. economic recovery may not bode well for juniors trying to raise money in the near term.

Canadian oil and gas producers of all sizes raised a record $6.1 billion of equity in the first half, up from $2 billion in the first half of 2009, according to **Sayer Energy Advisors** (figures exclude debt financings). This year's total is the highest first-half equity figure since the firm began keeping records 21 years ago.

However, last year was unusually low for equity-financing as markets were still in turmoil from the credit crisis which began in the fall of 2008.

"The earlier part of 2009 was exceptionally challenging," said **John Rossall**, president and chief executive officer of **Prospex Resources Ltd.** "There were many who felt the global financial system was about to fall apart."

In more normal times, equity financings were between $3 and $4 billion, still lower than this year. In the first half of 2007, for example, $4.05 billion in oil and gas equity was issued, while the figure dipped to $3.82 billion in 2008's first half, Sayer said.



This year's first-half total was swelled by a few hefty deals, including the $1.35 billion initial public offering by **Athabasca Oil Sands Corp.**, and large equity issues by **Crescent Point Energy Corp.** ($375 million), **Penn West Energy Trust** ($434.7 million), **Legacy Oil + Gas Inc**. ($236 million) and **Bonavista Energy Trust** ($177 million).

Dilution for existing shareholders is always an issue when companies float new equity issues. Due to today's low stock prices, many juniors need to sell more shares than even two years ago just to raise the same amount of money, making dilution even more of a problem.

"Many in our peer group -- the 3,000 BOE a day range -- have seen their stock price come down. They've recovered from last year, but in historical terms, our stock trades well below what it was at two years ago. With share prices where they are, it's just more challenging to justify an equity issue," said Rossall.

"In hindsight, for a lot of companies that chose to go at it alone and issue 100 or 200 million shares, if they'd looked at a midsize or larger (producer) and done a deal or joint venture three years earlier and stopped issuing equity, maybe their dilution would have been significantly (less)," said **Ragnar Saether**, investment banker and president of **Saether Capital Corp**.

Companies are also challenged to grow production and reserves, both on an absolute and a per-share basis, and issuing new equity can make that harder.

"The (public equity) market is still very cautious," said **Victor Rodberg**, oil and gas analyst with investment dealer **Clarus Securities Inc**. "There's money for select (juniors), where there's visible cash flow on the oil or natural gas liquids side, but very limited capital for anything gassy. Only the lowest marginal-cost producers can make (gas) work right now."

Since the New Year, for the most part, mainly oil-weighted players have turned to equity, he said. A bright spot has been juniors with liquids-rich gas plays, which have taken the sting out of low gas prices. Plays in the Deep Basin and Peace River Arch in particular have softened the blow of low gas prices for many.

Some wells could have up to 100 bbls of NGLs per mmcf, but even 40 to 50 bbls per mmcf is a game-changer, Rodberg said. Regardless of the gas price, the NGL volumes alone of some wells generate are enough to make them pay, he said.

BMO Capital Markets sees the current market for issuing junior oil and gas equity as "quite negative," for the sector as a whole. "It becomes very, very selective -- on management teams and on asset plays," said **Mark Leggett**, the firm's director of oil and gas analysis. "If you're best in class, you should be OK."

Like Rodberg, Leggett has noticed the trend toward oilier plays, including resource plays. "It's a theme within industry," he said. "Even gassy players are trying to target oil-prospective land bases more in this price environment ... If you have a light oil asset base as a junior, you clearly have a strong competitive advantage over your gassy peers."

At the same time, Alberta's improved natural gas royalty regime and the liquids-rich component of some gas plays point towards a lower economic threshold that will likely see many gas-weighted juniors survive the current low-price period, he said.

Among liquids-rich players, Leggett cited **Celtic Exploration Ltd**. and **Vero Energy Inc**., the former for its liquids-rich Montney play at Kaybob, Alberta, the latter for a liquids-rich play at Edson, Alberta. Gas laden with NGLs is also being pursued at Harmattan, Alberta by **Angle Energy Inc**.

But that still leaves plenty of juniors with assets dependent on natural gas prices which may stay low for quite some time.

The dilemma is one Ragnar Saether has seen before. "If you're a junior that's spent three or four years getting some licences together, but you don't have any money, you're in all likelihood forced to look to your left and your right at your bigger brethren, and say, 'Hey, this is what we've managed to scratch together. Let's do a deal.'"

Another option the market has increasingly taken up is the recapitalization of existing, under-performing producers, usually with new management. The recent run of 'recaps' includes **Antler Creek Energy Corp**. (to become **Pinecrest Energy Inc**.), Legacy Oil + Gas (formerly **Glamis Resources Ltd**.), **Whitecap Resources Inc**. (formerly Spitfire Energy Ltd.), **TriOil Resources Ltd** (previously **One Exploration Inc**.), and **PanWestern Energy Inc**. (to become **Valeura Energy Inc**.).

Current low stock prices are also part of the incentive to recapitalize, according to Victor Rodberg, who said about a dozen recaps are currently active and performing well in the junior sector. In part, the gap between a company's stock price and its often-higher underlying asset value is behind the recent trend, he said.

"There were management teams getting back in (to the business) and companies trading at valuations so ridiculously low... that it made more sense to re-cap them and pay a premium than start with nothing. That's still cheaper than going out and drilling," he said, citing Legacy, a former sub-$50 million junior that's now worth an estimated $1 billion.

Contents | Previous Page | Next Page