Lamphier: Imperial Oil asset sale signals big year for oilpatch deal-making

BY GARY LAMPHIER, EDMONTON JOURNAL MARCH 17, 2014

Rich Kruger, president and CEO of Imperial Oil. Calgary's Whitecap Resources announced an $855-million deal to acquire a portfolio of light oil and natural gas assets from industry giant Imperial Oil.

Photograph by: Stuart Gradon, Calgary Herald

EDMONTON - It's rare that an oil and gas producer's stock price jumps after it unveils a major acquisition — especially one funded largely from the issuance of new shares.

It's rarer still when the buyer's $500-million share issue is oversubscribed by roughly four times, and its stock closes more than 10 per cent above the issue price.

But that's what happened Monday after Calgary's Whitecap Resources announced an $855-million deal to acquire a portfolio of light oil and natural gas assets from industry giant Imperial Oil.

The assets, located in west-central Alberta and northeastern British Columbia, produce the equivalent of about 15,000 barrels of oil per day, split evenly between oil and natural gas.

For Whitecap, a well-regarded, fast-growing junior player, the deal is expected to boost fully-diluted cash flow per share by seven per cent this year and 23 per cent in 2015, and allow it to hike its monthly dividend payout by 10 per cent.

For Imperial, shedding non-core assets will let it focus on its far larger unconventional operations, including the massive Kearl oilsands mine, which began production a year ago and is expected to reach output of 345,000 barrels of oil per day by 2020.

Whitecap's shares jumped more than seven per cent Monday to close at $12.34 each on the Toronto Stock Exchange. The closing price was $1.14 or 10 per cent above the price at which Whitecap completed a $500-million bought deal with a group of investment dealers.

Under the deal's terms, Whitecap issued more than 44.6 million subscription receipts at $11.20 apiece. Once regulatory approvals are obtained and the deal closes, each receipt can be exchanged for one Whitecap common share.

For industry observers, the Whitecap-Imperial deal is just the latest sign that deal-making activity in the oilpatch is on the upswing, after a sluggish year in 2013.

Mason Granger, an oil and gas fund manager with Toronto-based Sentry Investments, says the rebound in energy share prices over the past year and improved access to capital, especially for top-performing junior producers like Whitecap, has helped to accelerate merger and acquisition activity.

“Going back to 2011, 2012 and the first half of 2013, that was a pretty tough time for energy stocks. But we saw signs of life at the end of last year, and financing activity picked up markedly in the second half of 2013, which I viewed as an important precursor of M&A (merger and acquisition) activity this year,” he says.

“The capital markets are demonstrating a willingness to finance companies to do acquisitions. There’s still a bifurcation between the teams the capital markets will support and the other teams, which are kind of stuck in the mud,” he notes.

“But for Whitecap, that deal went very well. We had been waiting for the Imperial assets to be bought and there were a few potential buyers including ARC Resources and Vermillion. With a half-billion dollar financing I’m sure there was some angst at Whitecap about whether they’d be able to get it done. But it just flew off the shelf.”

Tom Pavic, vice-president of Calgary’s Sayer Energy Advisors, which tracks oilpatch M&A activity, says the data so far this year points to a clear pickup in oilpatch deal-making activity.

“We’re up year-over-year with regard to M&A transactions. Looking back to this time last year, during the first quarter we had under $1 billion worth of deals. This year, we’ve seen three times that much,” he says.

“There’s more capital being thrown at the industry, and most of that capital is being directed toward — for lack of a better term — A-plus management teams that have a proven track record, such as Whitecap, Surge Energy, Kelt Exploration and Tourmaline,” he adds.

“Another key thing was Canadian Natural Resources’ big deal to acquire Devon Energy’s assets. I think Canadian Natural’s decision to step up and do that transaction has had a positive effect on the rest of the industry. They made a strong bet on natural gas with that transaction.”

Although the first quarter is still not complete, Pavic says the industry is on track to match the 34 M&A deals above $5 million that were completed in the last quarter of 2013. That’s about 50 per cent higher than the 22 deals announced in the first quarter of last year.

Not everyone is convinced that 2014 will be a breakout year for oil and gas deals, however. Josef Schachter, president of Calgary’s Schachter Asset Management, says global oil production is set to surpass demand this year, and that’s likely to lead to a sharp drop in oil prices within three to six months.

“I think we’ll see the low $80s US and maybe even into the $70s on oil prices,” he says. “And if you get low $80s pricing for oil that kills your deal flow.”

glamphier@edmontonjournal.com