Daily Oil Bulletin

Acquisition Signals Crescent Point's Return To M&A

BY PAUL WELLS (/AUTHOR/PAUL-WELLS/) – APRIL 24, 2014 – VIEW ISSUE (/HEADLINES/2014-04-24)

After taking a hiatus from merger and acquisition activity to focus on organic growth, **Crescent Point Energy Corp.** re-entered the fray in a big way yesterday when it announced the acquisition of privately-held **CanEra Energy Corp.** for $1.1 billion.

With the acquisition, Crescent Point receives a large Torquay land position and production of approximately 10,000 boe per day.

The CanEra assets include more than 260 net sections of land with Torquay potential, of which more than 200 net sections are exploratory land and 60 net sections are in Crescent Point's core Flat Lake area, where the company recently announced a large Torquay discovery (DOB, April 14, 2014 (http://www.dailyoilbulletin.com/article/2014/4/14/crescent-point-says-torquay-discovery-could-rival-/)).

The announcement of the cash, stock and debt deal (DOB, April 23, 2014 (http://www.dailyoilbulletin.com/article/2014/4/23/crescent-point-acquire-canera-11-billion/)) likely came as welcome news to other producers who might be considering selling southeast Saskatchewan assets.

"It's really been a year-and-a-half since Crescent Point was involved [in M&A activity] so they are back with a pretty significant transaction here which I think is good for southeast Saskatchewan producers in general," said **Don Rawson**, managing director of institutional research with **AltaCorp Capital Inc.**

"It does point out that there is a lot of competition for southeast Saskatchewan assets right now. When you think of all the producers that are looking to add assets like this, whether it's **Surge** [**Energy Inc.**], **Spartan** [**Energy Corp.**], **TORC Oil & Gas Ltd.** or maybe **Legacy Oil + Gas Inc.**, there are a lot of buyers," he added.

"For some producers that are potentially sellers, or sellers down the road, it's good to have Crescent Point and a number of other companies active and looking for assets. I don't think Crescent Point ever really went away but its absence was probably felt out there."

Tom Pavic, vice-president of **Sayer Energy Advisors**, said the deal for CanEra is a logical move by Crescent Point.

"They sort of took 2013 off on any significant acquisitions and focused on organic growth of their asset base," he said.

"This deal fits with the organic growth they were doing last year. On April 14, they announced a Torquay discovery and this sort of just follows that announcement."

Rawson agrees, noting the April 14 announcement of Crescent Point's Torquay discovery was somewhat out of character for the company but, given the CanEra deal, it now makes sense.

"You can see now in hindsight why that press release was put out. That was basically laying the groundwork for [the CanEra announcement]. At the time of the Torquay announcement it kind of made me scratch my head a little bit because it's curious for Crescent Point to talk-up a play like that," Rawson said.

"But now you can see they wanted to make sure that people understood what they see in the Torquay and the economics of the Torquay so that when they turn around a few weeks later and say they're making an acquisition with Torquay upside that people aren't kind of caught off guard."

Although Crescent Point has re-engaged on the acquisition front, the company has not lost focus of its organic growth plans. During the first three months of 2014 the company was the top operator in the basin with 461,965 metres drilled (DOB, April 23, 2014 (http://www.dailyoilbulletin.com/article/2014/4/23/crescent-point-drills-most-metres-q1-canadian-natu/)).

A good deal?

Was the deal a good one? Rawson thinks so.

"They are buying CanEra at attractive metrics -- it's 4.8-times cash flow on an asset that's declining 16 per cent. So that's an attractive take-out metric for Crescent Point...," he said.

"Crescent Point is a pretty big company and is about 13 times the size of CanEra, but because they're getting it at a decent enough price it actually moves the needle," he added.

"On my numbers, I have the deal increasing [Crescent Point's] cash flow per share, increasing production growth, reducing the payout ratio and kind of cheaper on a debt adjusted to cash flow basis. So pretty much every box that you're going to tick, you're ticking those boxes."

As for CanEra, Rawson said that with production in the 10,000 boe per day range, the number of potential suitors for the company was likely limited.

"When you get into that 10,000 boe per day size, there are not many buyers that are going to look at you. It's a little big for most companies, so Crescent Point is the logical buyer," he said.

"Despite the Torquay headline, most of CanEra's production in southeast Saskatchewan is mostly relatively mature Mississippian and Crescent Point would be the logical buyer. If you were going to sell these assets, there aren't too many buyers that could do this."

Overall M&A activity remains strong

Pavic noted that the $1.1-billion Crescent Point/CanEra deal continues a strong start to overall 2014 M&A activity.

"With this deal we're over $10 billion, or close to $10 billion so far this year. In comparison, there was only $14 billion all of last year. There's been close to 40 deals already this year," he said.

"We see strong interest in the capital and equity markets for oil and gas and because it seems like equity markets and M&A are strongly correlated, it's possible this pace can continue. It's been a really strong start to 2014."

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