

Crude slide continues as M&A 'paralysis' predicted



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Published on: December 13, 2014 | Last Updated: December 13, 2014 10:23 AM MST



Plunging oil prices are expected to make energy deals harder to close. New York-traded oil continued to plunge on Friday.

SECTIONS

The mergers and acquisitions market for western Canadian energy assets is headed for “paralysis” as spiralling oil prices play havoc with asset valuations, a Calgary M&A consultant said Friday.

“There’s going to be paralysis, I think, between buyer and seller in the short-term (in terms of) bid and ask spreads,” said Tom Pavic, vice-president of Sayer Energy Advisors, as crude oil for January delivery lost another \$2.14 to settle at a five-year low of \$57.81 US per barrel in New York.

“Buyers will be focusing on current pricing and sellers will be looking for higher values based on engineering reports at higher prices,” he said.

The crude price plummeted Friday on a report that China’s annual factory output grew 7.2 per cent in November, down from October’s 7.7 per cent growth rate and September’s eight per cent rate.

Also depressing prices Friday was a revised 2015 forecast from the International Energy Agency, which cut its forecast for global oil demand growth by 230,000 barrels per day to 900,000 barrels, citing lower expectations from oil exporting countries.

WTI is now 46 per cent below its late-June high for the year of \$107.26 US. Brent crude, the international standard used to price oil purchased by many U.S. refineries, fell 77 cents to close at \$61.85 US per barrel.

Pavic said companies are actively marketing western Canadian assets producing about 30,000 barrels of oil equivalent per day.

He said M&A activity has slowed recently as it normally does at Christmas time but is expected to pick up in the new year “once it settles in that we’re in this new world order.”

“What we’re going to see is not a lot of asset sales but possibly more consolidations, companies merging,” he predicted. “Companies are going to look at their bank lines and look at what they’d get for their assets and is that enough to cover retention values with their bank lines.”

SECTIONS | The stock market continued to punish big and small companies alike in the Calgary oilpatch on Friday.

Suncor Energy Inc. was down 1.34 per cent, Canadian Oil Sands Ltd. and Cenovus Energy Inc. both fell 3.4 per cent, Canadian Natural Resources Ltd. dropped by 3.1 per cent and Encana Corp. was off by 2.5 per cent.

Calgary drilling company Savanna Energy Services Corp. closed down 18 cents or five per cent at a new 52-week low of \$3.25 after it unveiled an \$80-million capital budget for 2015, down 75 per cent from the \$238 million it expects to spend in 2014. The shares have traded as high as \$9.32 in the past year.

Half of Savanna's budget is for maintenance on equipment, president and chief executive Ken Mullen said. He said the number is lower than usual because the equipment isn't expected to see as much wear and tear next year.

The rest of the budget is required to meet commitments for new rigs to be deployed in Australia in 2016 to drill gas wells for the liquefied natural gas export industry — there's no money set aside for equipment unless it's covered by a firm contract.

"We had a pretty aggressive build this year and last. A lot of that equipment is now being delivered to the field," said Mullen.

"It's all contracted but we're concerned about activity on the legacy assets now, given the downturn, so that takes some cash out of the equation. Obviously, you have to take a pretty conservative view of the world right now."

Most of Savanna's Canadian customers are carrying on with their winter drilling plans, he said, adding they will reassess the situation after the first quarter of 2015.

Meanwhile, shares in Calgary producer RMP Energy Inc. slumped by 20 per cent to a 52-week low of \$3.60 on Friday — in June, they were worth \$10.08 — after it unveiled a 2015 budget of \$150 million, a number chosen to closely match its internally generated funds from operations.

It said the spending would result in 30 per cent production growth to an average of 15,500 boe/d in 2015, assuming an average WTI price of \$70 US per barrel for the year.