When will the oil patch’s gusher of deals finally erupt?

SUBSCRIBERS ONLY

CALGARY — The Globe and Mail
Published Monday, Jun. 01 2015, 2:33 PM EDT
Last updated Monday, Jun. 01 2015, 5:41 PM EDT

- 1 comment

A much-anticipated wave of mergers and acquisitions in the oil patch has yet to wash into downtown Calgary, as sellers hope for recovery in oil markets to boost potential proceeds.

So far, deals have been sporadic. Crescent Point Energy Corp. launched a friendly $569-million bid for Legacy Oil + Gas Inc. last week, ending debt-hobbled Legacy’s months-long search for a buyer. Some investment bankers and energy executives do not think that transaction will push open the floodgates just yet.

The downturn in energy markets has left numerous oil companies financially vulnerable to takeover because of high debt and shrinking ability to fund drilling, yet mergers and acquisitions are well off last year’s pace. It shows that many sellers are banking on a rebound in oil prices to boost the value of their assets on the block – and that buyers believe prices for properties are too high, given the slowdown.

The value of corporate and asset deals in Canada’s energy sector totaled $5-billion in the first five months of the year, according to Sayer Energy Advisors. That compares to $20-billion in the first half of 2014.

Apart from the Crescent Point-Legacy transaction, most of the deals this year have been done by small and mid-size producers. The largest before that one was Whitecap Resources Inc.’s $517-million in cash and stock purchase of Beaumont Energy Inc., a Saskatchewan light oil producer.

Other deals include Tourmaline Oil Corp.’s $257-million acquisition of Alberta Deep Basin assets from Perpetual Energy Inc. and Torc Oil & Gas Ltd.’s $430-million light oil acquisition from Surge Energy Ltd.

There is a dearth of acquisition targets among larger companies, said Adam Waterous, co-head of global equity and advisory at Bank of Nova Scotia.

In two of the biggest deals in recent years, Nexen Inc. and Talisman Energy Inc. sold to foreign suitors, the latter to Spain’s Repsol SA in a deal that at the end of April. The firms floundered for years amid operational snags and financing constraints and were seen as perennial takeover targets, he said.

“The big sales that have happened over the last three years were really the weak being culled from the herd,” he said. “We don’t have that situation today.”

Indeed, bigger companies such as Suncor Energy Inc. and Encana Corp. have signalled they are in no rush to do deals. In May, Encana Chief Executive Doug Suttles said some companies will be able to survive, rather than be swallowed up, because the capital markets have been receptive to issuing equity and debt, and rewriting the terms of existing debt.

The activity is focused instead on small and intermediate-sized companies, bypassing the oil sands entirely. Companies hit hard by the sharp drop in energy prices are seeking to cut costs. That could help drive “significant” consolidation among such players over the next 12 to 18 months, according to Mr. Waterous. “There’s a lot of wounded animals out there,” he said.

Others expect the deal flow to pick up around the end of the summer.

“I think a lot of venders are still thinking it’s going to turn around,” said Tom Pavic, vice-president at Sayer. “But the longer this goes, the more of a chance that you’ll see that wave coming.”

Crude prices have recovered somewhat from recent low just above $43 (U.S.) a barrel in March despite recent suggestions from OPEC that no reduction in production quotas is likely to be agreed upon at the cartel’s upcoming meeting. On Monday, West Texas Intermediate traded in and around $59.94.

The Toronto Stock Exchange’s oil and gas subindex, meanwhile, is little changed since the beginning of this year, suggesting investors are not convinced a takeover binge is in the offing.

“I would think the big-cap companies would like to make acquisitions right now, but the types of assets or companies they might want to acquire - are their valuations reasonable enough?,” said Michael Dunn, analyst at FirstEnergy Capital Corp. “And do they have a ‘for sale’ sign up? It’s a lot easier to get deals done when there’s a willing seller.”