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Plenty Of Land Assets On The Block But Deal-Making Hasn't Surged



BY [PAUL WELLS \(/AUTHOR/PAUL-WELLS/\)](#) – FEB. 9, 2016 – [VIEW ISSUE \(/HEADLINES/2016-02-09\)](#)

Although many distressed operators have taken a hacksaw to capital spending and drilling plans, land asset sales have not witnessed an appreciable uptick as it's a buyer's market and the disconnect between sellers' expectations and those looking to get land on the cheap remains wide.

The reason? In large part it's because there are fewer buyers. That's despite the trend toward decreasing transaction metrics as production and reserve valuations are getting hammered by increasingly low commodity prices. Throw in the fact that it's difficult to access capital, and transactions are proving more difficult to enact.

"When there's lots of capital, the industry goes on land-buying frenzies with the assumption you're going to be able to get the capital to drill. And we're in a situation right now where everybody has lots of land and there's not much capital — or desire — to drill a lot of it except for select resource plays like the Montney and things like that," said **Alan Tambosso**, president of **Sayer Energy Advisors**.

"In general I'd say the industry is land rich and capital poor. So the assumption that there are a lot of land buying opportunities is correct, but the question is who's going to buy it?"

Like other areas of their operations, many companies are pulling back on land spending as a means to be prudent as they wait out the extended downturn and look for more clarity on the political and regulatory front, especially in Alberta.

"If you've got land already, you're not going to spend more money to buy land you're not going to drill," Tambosso said.

"Most land in Alberta, you have a five-year term and we've got a four-year term on our government. Typically, slowdowns are a great time to buy land. And you think you would see a pick-up in activity, not in dollars, though, because dollars are obviously down," he added.

"But I think people are going to hold off until a little further into the term of [Alberta's **NDP** government] until they see what the changes are."

Patrick O'Rourke, an analyst with **AltaCorp Capital Inc.**, said that while opportunities abound, unless a land package is in a marquee play, it likely will not attract a lot of interest from potential buyers, not to mention the fact that land and assets in plays like the Montney have pretty much been picked clean.

"I would say that there are opportunities and if you're going to be a contrarian and you have access to capital, it's probably a pretty good time [to purchase land assets]," he said.

“That being said, I think if you look at the Montney, which is one of the key plays that’s actually attracting capital, I think the areas that are perceived to be of the most value on a geological basis ... a lot of those have been bid up and there’s very small amounts of land still available at Crown, if any. It would be challenging to covertly put a play together there.”

That said, O’Rourke said that if an exploration and production company believes it might be on to a new area with potential exploitation opportunities, it’s the perfect time to scoop up land.

“If you have a new concept that I don’t even know about yet, this is probably time to do it where you can pick up land fairly on the cheap,” he said, noting that’s what **Celtic Exploration Ltd.** did during the depths of the 2008/2009 downturn when it put together its Duvernay land package at Resthaven before eventually selling (<http://www.dailyoilbulletin.com/article/2012/10/17/exxonmobil-buying-celtic-for-31-billion-in-rare/>) to **Exxon Mobil Corporation** for \$3.1 billion.

“If you have a geological concept maybe outside of where we’re seeing activity right now, I would agree it’s a great time to assemble a package, especially when guys aren’t focused on land acquisition.”

O’Rourke isn’t overly surprised at the slow pace of asset sales so far, though he believes it will likely increase as 2016 moves along.

“When you get to this part of the cycle, guys are fighting for survival. What little they are spending is on drilling and completions. They’re cutting back on facilities, and seismic and land are one of the other things that go pretty early in the budgetary phases,” he said.

“Over the last while we’ve seen some more credit reductions. A lot of those assets are going to have to find new homes. It’s been slower to take hold than I think a lot of people thought it would be in terms of M&A, but you may see an acceleration into 2016,” O’Rourke added.

“If we’re at the same place as we are now when April credit reviews come through with new reserve reports, that could really, really unlock some assets.”

The current state of the market

According to *Evaluate Energy*, a **June Warren-Nickle's Energy Group** unit, as of Feb. 2 there was a total of about 146,704 boe per day on offer in Canada via broker/agent listings and via strategic alternatives processes. **Husky Energy Inc.** has about 61,604 boe per day on offer in three listings, giving Husky 42 per cent of the market right now.

Figures are for all listings available in the public domain and will be short of the actual for sale amounts. It is a possibility, for example, that a company could have assets for sale with data only being made available to those who request it and sign a confidentiality agreement.

The most active buyers have been **Quattro Exploration and Production Limited** and **Toscana Energy Income Corporation**, both of which have completed six transactions. **Tourmaline Oil Corp.**, **Whitecap Resources Inc.** and **Striker Exploration Corp.** have all completed four transactions.

On the seller's side, **Enerplus Corporation** has completed six transactions, **Pengrowth Energy Corporation** and **Penn West Petroleum Ltd.** five each and Toscana and **Perpetual Energy Inc.** four.

In a Dec. 21, 2015 note that assessed the M&A outlook for 2016, **TD Securities Inc.** said transactions completed year-to-date (Jan. 1, 2015, to Dec. 21, 2015) implied decreasing metrics on both production and reserves which reflect a sustained commodity downturn that is now 18 months in the making.

"Furthermore, transaction volumes continue to fall — by number, value, production, and reserves — an indication of just how challenging the current operating environment actually is," the firm said.

In its note, TD Securities said that 132,000 boe per day of production and 534 million boe of 2P reserves were for sale at that time in the Western Canadian Sedimentary Basin, of which about two-thirds was accounted for by companies exploring strategic alternatives.

"We expect that these figures are likely to increase as more assets will come for sale as the downturn continues, with fewer buyers willing to transact at prices that arguably reflect a meaningful recovery in prices," the note said.

Sayer's Tambosso added that it's likely there are a sizeable number of assets for sale that have not been made public.

"There could be stuff that's quietly for sale. We just go by what's publicly out there and if you called any company right now and said, 'Would you sell me your Crown jewels' the answer would probably be, 'Sure, for the right price,'" he said.

"There's probably numerous companies that are actually trying to find merger candidates, so they're actually for sale but it's not being publicly announced and you really can't put your finger on that. So we just defer to the publicly-known number. But I think probably right now the non-public number is probably pretty significant as well."

In its view, TD Securities said it's evident that "we are in a buyers' M&A market that is exacerbated by an uncertain outlook for commodity prices."

The firm said it continues to see companies putting up assets for sale — or declaring strategic alternatives processes — in order to either right-size balance sheets or address discounted valuations.

"Judging by the list, we can conclude that most sellers are looking to either reduce leverage through non-core dispositions or are exploring strategic alternatives owing to depressed valuations and/or elevated balance sheet leverage," TD Securities said.

"In doing so, however, non-core assets are the first to be put on the block, with the disadvantage that these assets are usually considered non-core because of lower economics as few companies are willing to list their 'crown jewels' up for sale in the current market. Unfortunately, the relatively fewer buyers in the market are likely looking for these higher-quality assets at a bargain price."

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