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Bargain prices for oil and gas companies as they hit the discount bin

Pengrowth Energy sells for a nickel per share in proposed deal

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Billions of dollars in oil and gas assets are for sale. Companies too. (Kyle Bakx/CBC)

comments

It was a rough week for the Canadian oilpatch, to say the least, with the Keystone pipeline shutting down after a leak, Encana deciding to become American, and a new drilling forecast for 2020 that is woeful at best.

To cap things off, Pengrowth Energy announced its pending sale.

The Calgary-based company was a homegrown success story and was once worth billions of dollars. Its share price was more than $13 in 2011.

On Friday, Cona Resources said it would buy Pengrowth in a deal that would value each share as worth a nickel.

That's even lower than the 20 cents they were worth earlier in the week.

Essentially, a piece of leftover Halloween candy is worth more than a share in Pengrowth.

Facing few options

The company spent much of this year trying to find a way to survive. Still, the proposed sale price is startling.

"It's nice to see them get something done, but a little surprised the offer is considerably less than what the shares were trading [the day before]," said Tom Pavic with Sayer Energy Advisors, a Calgary-based mergers and acquisitions consulting firm.

"You don't normally see public companies get sold at a discount to its trading price, but it's just a sign of the times," he said.

The times are quite gloomy in the oilpatch.

There are 50,000 fewer people working in oil and gas than there were five years ago, before the price crash, according to CIBC.

On Thursday, oil and gas producer Encana declared itself an American company in hopes of attracting more investment.

- ANALYSIS **Encana declaring itself American is a gut punch for Alberta**

It's not just Encana making an address change to the U.S. Many companies are moving drilling rigs, equipment, and crews south of the border. Investment has dried up in Canada, while money is still being spent in Texas and other southern states.

Oil and gas producers in Western Canada are left trying to cut costs as much as possible. For those carrying heavy debt, the weight is often too much to bear.

Pengrowth owed too much money. After oil prices crashed, the hole was too deep to emerge from.

"Companies don't have anywhere else to go but basically say, 'We're up for sale,' or sell assets," said Pavic. "There's just no capital coming into the industry. It's a real buyer's market out there."

More oil and gas wells will be decommissioned in Alberta this year than new wells drilled. (Kyle Bakx/CBC)

Significantly symbolic

The Encana decision was symbolic. The company said no jobs or spending plans would be impacted by its address change.

The Pengrowth deal is somewhat similar, although potential staff changes are unknown. It's also a sharp fall for a company that once held the naming rights to the Saddledome in downtown Calgary.

Cona Resources became interested as Pengrowth's value dropped.

"I certainly think that's the case," said Rob Morgan, the chief executive of Cona Resources, in an interview.

"We think Pengrowth has some very solid assets that fit within our portfolio."

Morgan wouldn't discuss any potential changes at Pengrowth.

The deal would double the size of Cona Resources, which is based in Calgary and has operations in Saskatchewan.

While Encana said its decision was not politically motivated, Pengrowth was different.

Management was in dire need for financing, but because of "lacklustre oil pricing and increased political and regulatory uncertainty," it was too difficult, according to a statement by Pengrowth chief executive Pete Sametz.

- **Keystone pipeline shut after spilling 1.4 million litres of oil in North Dakota**

Looking for a buyer

Other oilpatch companies face a gloomy future and are weighing their options.

In September, Obsidian Energy began its own "strategic alternatives process" which may result in a sale, merger, or other development. Its shares were selling for less than a loonie for much of October. Five years ago, they were worth more than $20.

In October, Bellatrix Exploration entered creditor protection and is still looking for a buyer.

In total, the amount of Canadian oil and natural gas assets available currently for sale is $3.7 billion, which is double the value of what was for sale at the same time last year, according to a recent report by Pavic.

They can be bought for cheap, especially since there are few reasons to be optimistic in the oil patch, at least in the short term.

- **After 'very disappointing' 2019, Canada's oil and gas drilling forecast sinks even lower**

Drilling activity is expected to drop in all four Western Canadian provinces next year. Job losses continue to occur, even at larger companies like Husky Energy. There won't be any new oil export pipeline projects in the next 12 months and potentially longer.

The latter point seems to be the biggest challenge for the sector, wince once more pipelines are built, there is a belief more investment, spending and jobs will begin to come back.

"It is going to be tough for the industry," said Alan Fogwill, president of the Canadian Energy Research Institute.

"It really is all about market access."