Varcoe: More deals expected in oilpatch as Brookfield finally nabs Inter Pipeline

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The Inter Pipeline Heartland Petrochemical Complex under construction in Strathcona County, Alberta.
PHOTO BY JASON FRANSON/BLOOMBERG FILES

The dogged pursuit by suitor Brookfield Infrastructure Partners of Inter Pipeline Ltd. has paid off with its $8.6-billion takeover bid gaining the support of a majority of shareholders — setting the table for another oilpatch deal as more consolidation hits the sector.

Analysts, executives and investors anticipate the recent wave of industry mergers and acquisitions (M&A) will continue, although the pace may cool slightly through the rest of 2021.

"There are a number of private companies that are going to test the market and they're seeing there are more buyers, so that will draw more companies out as well. I think you will have a pretty active fall," Tamarack Valley Energy CEO Brian Schmidt said Monday.

"We are definitely not in the first or second inning (of this consolidation phase). . . We are maybe in the fourth or fifth," added Laura Lau, chief investment officer with Brompton Group in Toronto.

"This is actually the first midstream company consolidation we've seen in a while, and there could be some room on that side."

Brookfield announced Friday that 65.6 per cent of Inter Pipeline common shares not owned by Toronto-based Brookfield Infrastructure were tendered to the offer, above the 55 per cent level it required to move forward.

In February, Brookfield initiated a hostile takeover bid for Inter Pipeline, offering $16.50 a share. It encountered resistance from the Calgary-based company and later faced a competing friendly offer from Pembina Pipeline Corp., prompting a higher — and ultimately winning — bid from Brookfield.

Last month, the Toronto-based firm upped its offer to $20-a-share cash or 0.25 of a Brookfield Infrastructure Corp. share.

“It’s done,” said Lau, whose company owns shares in Brookfield. “They did pursue it very aggressively.”

Brookfield recognized the underlying value of the Heartland Petrochemical Complex that Inter Pipeline is now building in Strathcona County, said analyst Elias Foscolos of Industrial Alliance Securities.

The target’s prized oil pipeline system was also a “crown jewel” to snap up.

Brookfield’s proposed acquisition of Inter Pipeline marks a major foray into oil infrastructure.
PHOTO BY HANDOUT

“They really wanted this,” Foscolos added. “They found an undervalued nugget in an undervalued sector.”

As for the entire Canadian oil and gas industry, he anticipates more M&A action, although the pace will likely decelerate.

“A fair amount of consolidation has been done,” he noted.

Since the sudden free-fall in oil markets more than a year ago at the start of the pandemic, the Canadian oil and gas industry has seen a number of deals unfold, with names such as Husky Energy, Seven Generations Energy and Painted Pony being snapped up.

In a low-price environment, the drive to reduce costs has become essential to success, fuelling some of the recent corporate unions.

There's also been a push to increase the size of companies to bolster their ability to attract institutional investors, while some privately-owned producers have been sold to more acquisitive public firms, such as Whitecap Resources and Tourmaline Oil.

"We might see more of the private companies choosing liquidity through selling out to one of the high quality, liquid companies," said Michael Tims, vice-chair of Matco Investments.

Higher commodity prices this year — notwithstanding the recent dip in oil markets — have taken the financial pressure off some companies that were facing rising debt levels a year ago.

It may also lead to more companies at the auction table with the ability to bid in the coming months.

"You will see consolidation still in the Duvernay and the Montney (formations). On the conventional energy side, you will see more" mergers and acquisitions, said Rafi Tahmazian, a senior portfolio manager at Canoe Financial.

"There are 25,000 to 75,000 barrel-a-day companies out there that add up to $4 billion or $5 billion of asset transactions just waiting to happen."

Data from Sayer Energy Advisers shows almost $11 billion of M&A activity occurred in the upstream Canadian oil and gas sector during the first six months of the year.

That was up sharply from just $750 million reported during the same period in 2020.

Cenovus Energy has joined the four other largest producers in Canada's oil and gas sector to propose a vast carbon capture, utilization and storage (CCUS) project they said was "the only realistic proposal" to curb pollution. PHOTO BY REUTERS/TODD KOROL/FILE PHOTO

As oil prices stabilized through last fall and winter, a number of deals were struck, including the blockbuster acquisition of Husky by oilsands giant Cenovus Energy — pushing total M&A activity to just under $20 billion for the year, according to Sayer.

The biggest acquisition during the first six months of 2021 saw Seven Generations Energy acquired by ARC Resources for $5.1 billion, including assumed debt.

In June, Tourmaline Oil bought privately held Black Swan Energy for $1.1 billion, while Crescent Point Energy picked up some Duvernay assets from Shell Canada for $900 million in February.

“With these companies and what they went through in 2020, they realize they need to be bigger to weather any kinds of storms coming ahead,” said Sayer Energy president Tom Pavic.

At Tamarack Valley Energy, which has completed several deals over the past year worth about $700 million, Schmidt believes the broader oilpatch shopping spree isn’t over.

There are several asset packages and companies set to hit the market, while more potential buyers are emerging as higher oil and gas prices boost their cash flow levels, he said.

“We would look to still add on,” Schmidt said.

“It’s still a buyer’s market, in my opinion, but there are more players there with balance sheet strength.”

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