Varcoe: More M&A action expected in oilpatch, but not by Crescent Point after $4B makeover

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File image shows a Crescent Point Energy facility. Photo by Crescent Point Energy Corp.

Craig Bryksa has been helping drive a major M&A wave in the Canadian oilpatch this year, as the CEO of Crescent Point Energy has been rapidly remaking the oil and gas producer.

This particular tide, however, is about to subside.

The head of Crescent Point Energy says after securing two major deals this year worth more than $4 billion — including last week's $2.6-billion takeover of Hammerhead Energy — the Calgary-based producer will "take a good long pause" on the acquisition front, but he thinks industry M&A action will continue into next year.

"I do think as (the sector) moves into 2024 you are going to see more. If you look at what's been happening in the United States on that front, Canada always seems to be a little bit behind," Bryksa said in an interview.

"When you look into 2024, there'll be some activity on that front. I mean, obviously not for us — with us just having done this here on the back end of the Hammerhead deal — but I do think you're going see more."

With just seven weeks left in this year, the Canadian oil and gas sector has seen a growing number of mergers and acquisitions, with deals worth about $15.8 billion in combined value, slightly ahead of the $15.4 billion recorded last year, according to Sayer Energy Advisors.

In the United States, ExxonMobil made a mammoth move last month with the US$59.5-billion takeover of independent Pioneer Natural Resources. Two weeks later, rival Chevron struck a deal to buy Hess for US$53 billion.

In Canada, the largest transaction of this year so far saw ConocoPhillips spend $4.4 billion to acquire oilsands assets from TotalEnergies, but the next two biggest deals have been spurred by Crescent Point as part of its ongoing transformation.

In just a few short years, Crescent Point has sold off some properties in the United States and Canada, and acquired more prolific assets in the massive Montney and Duvernay formations in Alberta.

Bryksa, who took over the company's helm in 2018 after the departure of longtime CEO Scott Saxberg, has spearheaded the overhaul, which began with Crescent Point focusing on improving its balance sheet.

At the end of 2018, the company's net debt topped $4 billion, while production in the fourth quarter averaged 178,000 barrels of oil equivalent (boe) per day. The following year, it disposed of some assets in Utah and southeast Saskatchewan.

In February 2021, Crescent Point began to shift gears, acquiring assets in the Duvernay formation in Alberta from Shell Canada for $900 million, adding about 30,000 boe of production in a new growth area. Crescent Point unveiled in December 2022 that it had agreed to purchase Kaybob Duvernay properties from Paramount Resources for about $370 million.

This year, the M&A activity has picked up.

Crescent Point announced in March it would buy the oil and liquids-rich assets in the Montney from Spartan Delta Corp. for $1.7 billion in cash. Those properties added 38,000 boe per day of production and room to grow.

Last week's deal with Hammerhead is the largest one yet.

The cash-and-shares acquisition, which includes $455 million in assumed debt, adds about 56,000 boe per day of production, along with infrastructure in the Montney. "It fits us hand in glove with what we're doing," Bryksa said Friday.

Once closed, it will turn Crescent Point into the seventh-largest Canadian petroleum producer.

The company expects production next year will average about 204,000 boe per day, with capital expenditures of about $1.5 billion. About 80 per cent of its spending will be directed to the Montney and Kaybob Duvernay, with the rest spent on Crescent Point's long-cycle assets in Saskatchewan.

"The strategic priority for the company over the last three years was (to) transform the portfolio — check," he said.

“We are going to focus on our balance sheet and significantly strengthen that here over the next 24 months. And then we’re going to look to build out our return of capital to our shareholders.”

Bryksa said the company’s five-year plan would see it grow organically to about 260,000 boe per day by 2028.

However, since the deal was announced, Crescent Point’s shares have dropped by about 12 per cent.

“If you are going to have an acquisition strategy, you have to do it (at) a measured pace,” said Michael Zuk, managing partner at Athena Capital Markets in Calgary.

“It could be one per year or it could be one every 18 months. But, certainly, the size and scale that Crescent Point has tried to do . . . is too aggressive.”

Laura Lau, chief investment officer with Brompton Group, which owns a small number of Crescent Point shares, said the timing of the transaction came as oil prices slumped, although she said there may also be concern about the previous management’s track record of acquiring assets.

“I think it’s a combination of everything — a lot of deals lately, bad timing, and I think there’s probably some thoughts, ‘Is Crescent Point going back to the old playbook where they would constantly be buying stuff?’ ” Lau said.

Eric Nuttall, a senior portfolio manager with Ninepoint Partners, one of the larger shareholders in Crescent Point, agreed the timing of the deal came as benchmark oil prices fell last week, including a $5-a-barrel drop in the following two days.

Yet, he’s confident about the merits of the new transaction.

“They have transitioned . . . to now sitting on inventory where they’re drilling some of the most economic Montney wells that have ever been drilled in Canada,” Nuttall said.

“That’s one hell of a transformation.”

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