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Varcoe: With Cenovus Energy's offer for MEG, consolidation grows in oilsands – deal-making tops \$89B over decade

Cenovus said it expects to find \$150 million in annual synergies in 2026, increasing to \$400 million a year by 2028.

By [Chris Varcoe](#) • Calgary Herald

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The takeover game in the Canadian oilsands is rapidly moving into the later innings – consider this the seventh inning stretch.

In the wake of [Cenovus Energy announcing a friendly agreement Friday to buy MEG Energy](#) in a cash-and-stock deal valued at \$7.9 billion, analysts and investors believe corporate acquisitions in the oilsands will likely slow as there simply aren't many sizeable players left to snap up.

And that potential pool is about to get smaller.

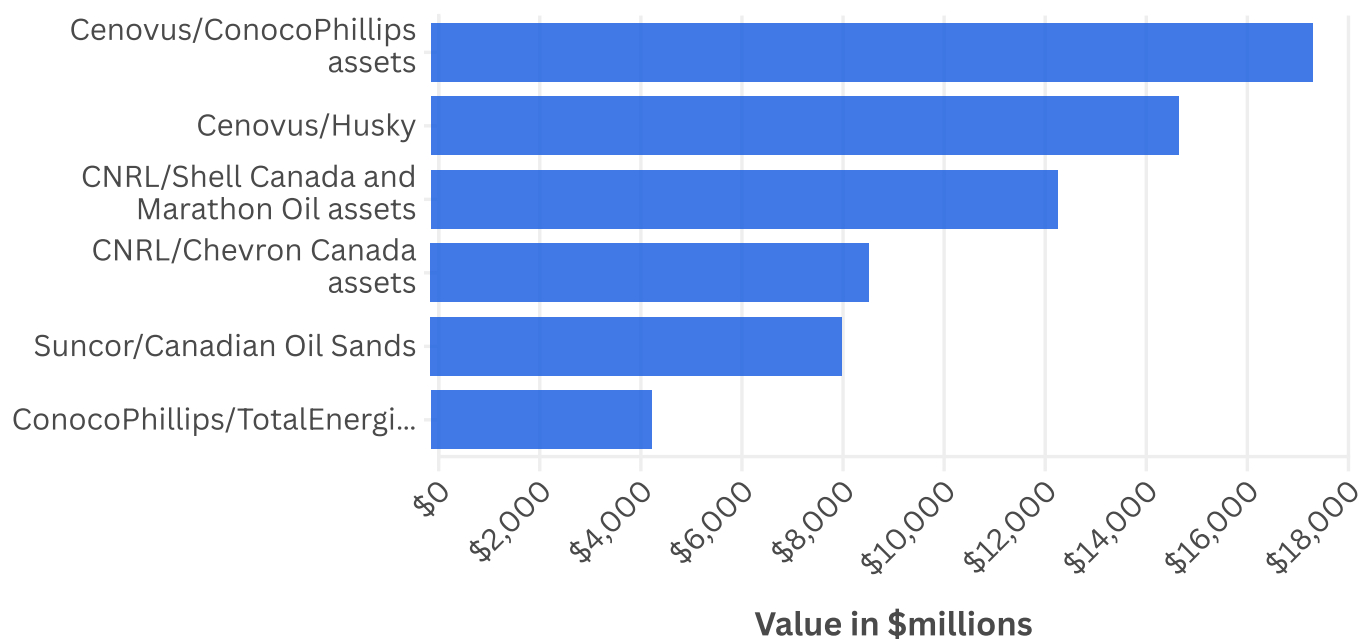
“Definitely, there has been a lot of consolidation and a lot of those assets have been picked up by Canadian entities...There's not a lot left,” said Tom Pavic, president of Calgary-based Sayer Energy Advisors.

“The better quality assets are becoming more and more scarce,” added David Szybunka, senior portfolio manager with Canoe Financial.

“This isn’t inning one. This is inning seven and a half.”

Top 6 known Alberta oilsands transactions, 2016-2025

Purchaser/Acquisition



Source: Sayer Energy Advisers

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Calgary-based Cenovus, a large integrated producer, operates thermal oilsands assets adjacent to MEG Energy’s key Christina Lake property in northern Alberta, giving it a prime opportunity to find efficiencies and reduce costs.

MEG, an intermediate-sized oilsands operator, was seeking a white knight offer to fend off a hostile bid from Strathcona Resources.

In May, Strathcona offered 0.62 of a common share and \$4.10 in cash for each MEG share, and the overall deal was valued at time at more than \$6 billion.

However, the bid was rejected by MEG's board as being inadequate and it began looking for other options. Cenovus stepped up with its proposal, which was unanimously approved by MEG's board.

It's offering \$27.25 per share, with three quarters of it paid out in cash – totalling about \$5.2 billion – and the rest in company stock.

“The MEG board has just agreed to a take-under by Cenovus. The price reflects about a dollar per share less than current the value of Strathcona's offer,” Adam Waterous, Strathcona's executive chair, said in a statement Friday.

“Should Strathcona be unsuccessful in its tender offer, it will be voting it's 9.2 per ownership stake in MEG against the Cenovus offer and will proceed with its previously disclosed plan of returning approximately \$10 per share by year end to its shareholders.”

Shares in Cenovus climbed seven per cent on the Toronto Stock Exchange to close at \$22.68. MEG's stock rose 1.2 per cent to close at \$27.90, while Strathcona's shares were up slightly to \$38.92.

Based in Calgary, MEG began as a small startup founded in early 1999 by Bill McCaffrey, brother-in-law Steve Turner and friend Dave Wizinsky. MEG completed its initial public offering in 2010.

Today, MEG Energy has about 225 employees in the city, 250 at Christina Lake regional project. It produced an average of 102,000 barrels per day of bitumen production last year.

Cenovus said it expects to find \$150 million in annual synergies in 2026, increasing to \$400 million a year by 2028.

“The fit is exceptional and it plays right into what we do best,” Cenovus CEO Jon McKenzie told analysts on a call Friday.

Combining the companies will push Cenovus’ oilsands production above 720,000 barrels per day (bpd), with plans to increase it to more than 850,000 bpd by 2028.

Eric Nuttall, a senior portfolio manager with Ninepoint Partners, which owns shares in MEG, was disappointed the offer wasn’t higher, but noted investor sentiment toward to sector is challenged and some companies may be bearish on the short-term outlook for oil prices.

“This is done. This was a heavily shopped (sales) process,” he said.

“The ability of a U.S. shale company to come and consolidate Canadian oilsands is a bridge, perhaps, too far, so there are only a limited number of (buyers), outside of private equity.”

The oilsands sector has seen several waves of M&A activity roll through the industry since oil prices tanked in 2014, as a number of major international players exited Canada and sold assets to domestic operators.

For example, Cenovus Energy agreed in March 2017 to acquire oilsands properties and gas assets from ConocoPhillips for \$17.7 billion.

That same year, Canadian Natural Resources struck a \$12.7-billion agreement to buy oilsands assets from Royal Dutch Shell and U.S.-based Marathon Oil, giving it a 70 per cent interest in the Athabasca Oil Sands Project (AOSP) and the Scotford upgrader.

Last October, Canadian Natural Resources reached a \$8.85-billion deal with Chevron Corp. to acquire its 20 per cent stake in the AOSP.

Since 2016, four Canadian operators – Cenovus, Suncor Energy, Canadian Natural Resources and Strathcona – have accounted for 90 per cent of the \$89 billion spent in 34 separate oilsands-focused deals, according to energy consultancy Wood Mackenzie.

“It’s obviously consolidating amongst the big fish,” Mark Oberstoetter, head of North American upstream research at Wood Mackenzie, said in an interview.

“Less and less companies means there is probably less growth upside on the amount of greenfield (projects) that that might come in if...the pipeline egress and political framework agreements (are) going that direction.”

If Cenovus’ bid is approved by shareholders, the five largest Canadian oilsands-focused operators – including Imperial Oil – will have working interest ownership in 87 per cent of all bitumen production, Wood Mackenzie found.

Oberstoetter noted the level of consolidation is also high relative to other resource plays in North American.

For instance, in the B.C. Montey formation, the top five operators control close to 80 per cent of production, with similar concentration level seen in the U.S. Haynesville and Utica formations – and lower levels in other U.S. areas, he added.

“The Canadian operators have proved to be the best operators of the oilsands asset, so there was a drive to consolidate just by getting these into the competent hands,” Oberstoetter said.

“Once you’ve passed 90 per cent, there’s certainly not too much more to happen.”

Chris Varcoe is a Calgary Herald columnist.

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