Varcoe: Oilpatch M&A nears record heights, as Canadian Natural Resources acquires Advantage Energy

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Investors expect the string of takeovers will continue, although it's uncertain if the 2012 record will fall — however, there are still six weeks left in 2026, and companies looking to buy assets remain in stellar financial health

Records are meant to be broken, and a big one is now clearly within spitting distance.

No, it's not Connor McDavid notching points in 22 consecutive games for the Edmonton Oilers, as he is still well behind the 51-game point streak set by Wayne Gretzky more than four decades ago.

Instead, it's the record of merger and acquisition (M&A) activity in the country's oil and gas sector.

On Monday, industry heavyweight Canadian Natural Resources announced it will acquire Calgary-based Advantage Energy for almost $2.5 billion, including assumed debt.

The friendly transaction pushes the total value of M&A for producers to about $48 billion this year, well up from $31.6 billion in 2025, said Tom Pavic, president of Sayer Energy Advisors in Calgary.

The record for the sector was set in 2012, with $54.7 billion in combined transactions, while strong years were also reported in 2007 ($49.7 billion) and in 2014 ($49.4 billion), according to Sayer data.

"Very close, we're getting there," Pavic said about the 14-year-old record.

"Consolidation is just the major theme, right? So, a lot of these larger purchasers have the ability and flexibility to do these large acquisitions with higher commodity prices and very, very strong balance sheets."

Canadian Natural Resources certainly qualifies under that criteria, as it's the largest oil and gas producer in the country. Its output topped 1.65 million barrels of oil equivalent per day during the third quarter, while reporting net earnings of $3 billion.

By acquiring Advantage Energy, it will add about 79,000 boe per day to the company, with production coming from the mid-size company's Montney and Charlie Lake assets in the Western Canadian Sedimentary Basin.

About 85 per cent of Advantage's production is natural gas.

Under the cash deal, Advantage investors will receive $13.55 per share.

"The valuation looks pretty reasonable," said analyst Luke Davis with Raymond James, noting Advantage was facing weak natural gas prices in Western Canada and the company was searching for a new CEO.

It went through a strategic review process that ended last winter.

Andy Mah, who was CEO of Advantage for 12 years until 2021, recalled Monday the company converted from a royalty trust in 2009 to a rapidly growing junior firm active in Western Canada.

It drilled in the Montney, owned its own infrastructure and became one of the lowest-cost producers, later expanding into the Charlie Lake area of northwest Alberta.

“It’s harder and harder for small to mid-cap (producers) to have enough economies of scale” in the sector, Mah said.

“Larger companies continue to consolidate the space, and mid and smaller ones are finding: Can they compete in the bigger picture in the future? . . . I think it ended up in a good spot.”

Investors expect the string of takeovers will continue, although it’s uncertain if the 2012 record will fall.

However, there are still six weeks left in 2026, and companies looking to buy assets remain in stellar financial health.

“The industry has never been in better shape, from a cash generation and balance sheet standpoint,” Davis said.

“From an acquirer’s perspective, there is plenty of dry powder to go around.”

Oil producers have seen a huge jump in their cash flow levels this year after crude prices surged following the war in the Middle East.

Gas producers in Western Canada have faced weak prices for benchmark Alberta gas for years amid rising output, but the resource base in the Montney is massive.

The issue facing potential buyers now is simply how many of the small and mid-sized players have been snapped up over the past two years, along with some larger producers.

“Clearly, there’s been as significant a consolidation in the Canadian energy industry as we’ve seen in a very long time,” said Michael Tims, vice-chair of Matco Investments, which owns shares in Canadian Natural Resources.

“I’m having trouble seeing where the next deals come from, but the acquisition interest is very strong.”

The biggest transaction of the year saw ARC Resources, one of the country’s largest gas producers, bought by Shell for $23 billion in April.

In October, oilsands giant Cenovus Energy unveiled a $5.7-billion friendly takeover of Athabasca Oil Corp., while Headwater Exploration was bought by Tamarack Valley Energy for $3.3 billion in September. Strathcona Resources announced earlier this month it would acquire Greenfire Resources for about $2.5 billion.

The latest deal speaks to the longer-term outlook for natural gas — as LNG projects ramp up — and the expected growth in the oilsands, which requires gas for thermal projects.

And with the wave of takeovers in the U.S., more American producers are looking to Canada to acquire assets, say industry watchers.

“There aren’t that many (targets) left. They’re starting to dwindle out pretty quickly here,” said Ryan Bushell, CEO and portfolio manager of Newhaven Asset Management, which owns shares in Canadian Natural Resources.

“As long as there’s still independent companies out there at reasonably bite-sized chunks, I would imagine they keep getting scooped up.”

Chris Varcoe is a Calgary Herald columnist.