Ewart: Optimism drives upturn in oilpatch deals

BY STEPHEN EWART, CALGARY HERALD MARCH 22, 2014

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Photograph by: Gavin Young, Calgary Herald

The resurgence of mergers and acquisitions in the Canadian oilpatch is evident in Whitecap Resources' purchase of Imperial Oil properties for $855 million this week.

A year ago - as M & A activity retrenched in Canada and globally - Whitecap acquired rival junior Invicta Energy for $63 million as part of its growth strategy. The change in the size of acquisitions by Whitecap from one year to the next reflected the overall industry as the value of transactions rose more than tenfold in the first quarter of 2014 from a year ago.

The upswing in corporate deals reflects asset disposition and capital control programs among producers as well as renewed optimism across the industry. "With the current oil price environment and advances in technology, (we) identified considerable upside potential in the assets," Whitecap, a fast-growing junior, said in a news release after acquiring the mix of oil and gas properties in Alberta and B.C. from Imperial.

After the Whitecap-Imperial deal and Vermilion Energy's $400-million purchase of Elkhorn Resources on Wednesday, Calgary-based Sayer Energy Advisors pegged the value of oilpatch M & A activity in Canada at close to $8 billion so far in 2014.

Robust oil prices, rising natural gas prices and a depreciating Canadian dollar have combined to revive the fortunes of the industry.

Capital began to flow more freely back into the sector in Canada last fall. The latest deal came Monday when Inter Pipeline of Calgary raised $300 million with the issue of new shares.

Meanwhile, the momentum around takeovers started to pick up last year and was evident in February when Baytex Energy paid $2.6 billion for Australia's Aurora Oil & Gas and Canadian Natural Resources Ltd. spent $3.15 billion for oil and gas properties in Western Canada from U.S. producer Devon Energy.

The increase had been widely predicted after the global lull in 2013.

Mergers and acquisitions in the oilpatch around the world fell to the lowest level in a decade last year with a total value of $337 billion US, down 17 per cent from 2012, noted business consultants Ernst & Young.

The situation was more evident in Canada because Ottawa had introduced restrictions on takeovers by foreign state-owned enterprises in the oilsands after China's CNOOC paid $15 billion for Nexen in December 2012. The same day, Malaysian SOE Petronas was also approved for a $6-billion takeover of Progress Energy.

Ernst & Young put the value of oil and gas transactions in Canada at $12.8 billion last year. Activity has gained more momentum in 2014 as the frigid winter across North America has revived previously uneconomic natural gas prices.

In February, Petronas sold a 10 per cent stake in Progress Energy to India Oil and Reuters reported this week that China's Sinopec is close to buying a 15 per cent stake in Petronas' $36-billion LNG project at Kitimat, B.C.

Meanwhile, the Wall Street Journal reported Calgary-based Encana is in "advanced talks" to sell its Jonah Field in Wyoming for $2 billion. In Canada, Talisman Energy, Penn West Petroleum and others have properties for sale and Encana has packaged several oil and gas properties under the name Clearwater royalty trust that comes to the market with an initial public offering by mid-year.

The higher gas price - it traded above $4.50 a gigajoule this week - prompted FirstEnergy Capital to raise its valuation of Clearwater by 25 per cent to $2 billion. Oil transportation bottlenecks have also eased - and narrowed price differentials from a year ago - with added pipeline capacity and increased use of rail shipments.

Advances in fracking has underpinned the resurgence in deals - and the industry's optimism - as previously uneconomical oil and gas pools now offer business opportunities.

"I've had lunch this week with a couple of entrepreneurs who have bought and sold companies two or three times and they're preparing to do it again because there has never been a better time to be a buyer," said Barry Munro, the leader of Ernst & Young's oil and gas group in Calgary.

"They think technology is advancing in such a way that they will be able to extract the full value of the reserves."

The significance of a robust M & A market goes well beyond the fees generated by legal and financial advisers. There have been 27 transactions worth more than $5 million in 2014 by Sayers calculations and those deals will translate into activity in the field. "The purchasers who buy these assets definitely want to develop them," said Sayer vice-president Tom Pavic. "They're not going to buy assets and then stuffthem into a back cupboard."

More than any dollar figures in headlines, that work is the real economic impact of these bigmoney deals.

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