Varcoe: Whitecap Resources secures biggest takeover in its history, nabbing XTO Energy for $1.9B

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Chris Varcoe • Calgary Herald

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President and CEO of Whitecap Resources Inc Grant Fagerheim at his headquarters in Calgary, Alberta in 2013. PHOTO BY TODD KOROL /PST

Whitecap Resources continues its acquisitive ways in the oilpatch, securing the biggest deal yet in its 14-year history by snapping up XTO Energy Canada for $1.9 billion.

Calgary-based Whitecap announced late Tuesday it struck an agreement to buy XTO from joint owners Imperial Oil and ExxonMobil in an all-cash transaction, the largest purchase in the Canadian oil and gas industry this year.

The takeover gives Whitecap, an intermediate-sized petroleum producer, a significant footprint in the prolific Duvernay and Montney plays, to go along with its core oil assets in Saskatchewan and Alberta.

It also marks the company's fifth major purchase since the pandemic began, a "truly transformational acquisition" with long-life assets, said CEO Grant Fagerheim.

"These types — we'll call them once-in-a-lifetime opportunities — don't come along (often). XTO Canada was not spending money on their conventional assets in Canada," Fagerheim said Wednesday in an interview.

"I believe so strongly that energy is going to be needed, utilized, from an energy security perspective … moving forward. Those that have good inventories of opportunities into the future should be rewarded."

As oil and gas prices have surged this year following Russia's invasion of Ukraine, merger and acquisition activity in the Canadian oilpatch has been relatively quiet, although it's picked up steam recently.

According to data from Sayer Energy Advisors, the XTO deal is the largest acquisition of the year. It's pushed the total value of Canadian industry M&A to an estimated $4.5 billion, down from $11.1 billion in the first half of 2021.

Earlier this month, Cenovus Energy agreed to buy BP's stake in the Sunrise oilsands assets for $600 million in cash — and a contingent variable payment of up to $600 million — while Vermilion Energy announced in March it would buy Leucrotta Exploration for $530 million.

With global energy prices escalating, it's been tricky for the bidders and sellers to agree on valuations and strike deals, said analyst Phil Skolnick with Eight Capital. "But this shows there are still willing buyers," he said.

As the industry pumps out record amounts of cash and higher profits, expect to see more consolidation take place this year, predicted Rafi Tahmazian, a senior portfolio manager at Canoe Financial.

"The system is massively cashed up and these producers are going to use their cash to buy assets," he said.

Whitecap's latest deal will see the company expand its natural gas portfolio significantly. The XTO properties produce about 32,000 barrels of oil equivalent (boe) per day, with more than two-thirds coming from natural gas volumes.

The agreement includes 567,000 net acres in the Montney shale and 72,000 net acres in the Duvernay shale, as well as additional Alberta acreage, according to Imperial Oil.

Industry players noted interest in the XTO sale was high and the deal was being closely watched in the Canadian sector.

Once the transaction closes, likely by the end of September, it will increase Whitecap's net debt to $2.1 billion. The company said that number is expected to drop to $1.5 billion by the end of this year.

Whitecap will also increase its monthly dividend by 22 per cent. Further dividend increases are expected once net debt levels hit $1.8 billion, and then again when it falls to $1.3 billion, which is projected to take place in the first half of 2023.

Imperial and Exxon announced in January they were putting XTO Energy up for sale. Skolnick initially expected it to garner bids around $1.1 billion, but rising commodity prices boosted its value throughout the year.

Imperial, which will collect $940 million from its ownership stake in XTO, said the deal was consistent with its broader strategy of focusing on the oilsands.

For Whitecap, it marks another acquisition in a consolidation phase that has seen its production nearly double from an average of 69,000 boe per day in 2020, to almost 133,000 boe per day in the first quarter.

In the past two years, Whitecap has used its strong balance sheet to acquire NAL Resources, TORC Oil & Gas, Kicking Horse Oil & Gas, before acquiring TimberRock Energy Corp. in January.

Analyst Jeremy McCrea with Raymond James touted the long-term potential of the XTO properties, noting Whitecap is expected to grow production from the assets to 50,000 to 60,000 boe per day within three to five years.

"The value won't truly come to life until a couple of years down the road," he said.

Whitecap's stock dropped 63 cents to close Wednesday at $9.12 on the Toronto Stock Exchange.

Eric Nuttall, a senior portfolio manager with Ninepoint Partners, which owns stock in Whitecap, sees the value for the Canadian producer to buy high-quality Montney and Duvernay properties.

But in a competitive bidding process, "they were not going to get the deal of the century" by acquiring XTO.

"With the benefit of time, this will look like a good acquisition for them," he said.

"But relative to what they paid, I can go buy similar or higher quality assets at a cheaper price tag, just because of how mispriced the small-cap and mid-cap Canadian energy stocks remain."

Whitecap is expected to increase its overall development capital spending next year by 35 per cent to about $1 billion, while total company production climbs to between 168,000 to 174,000 boe per day.

With the ongoing focus of companies to pay down debt and return money to shareholders, there's been far less emphasis on growing production in the industry this year than during past energy price spikes.

Fagerheim said Whitecap is committing to deleveraging and returning more money to investors but also sees the need to pursue measured growth for the longer term.

"We will always have to grow somewhat," he added.

"And this is where modest growth matters. If you're just producing things out and harvesting out your business, I don't think you've got a long-term sustainable business."

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