

Varcoe: After \$16B in oilpatch deals in 2023, industry is now in 'a sweet spot' for more M&A

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Chris Varcoe, Calgary Herald

'We are in a period of energy profitability that we haven't seen in over 50 years,' said David Szybunka, senior portfolio manager with Canoe Financial

Chris Varcoe • Calgary Herald

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A dramatic sky is seen over two pumpjacks in rural Alberta, Canada. Photo by ronniechua /Getty Images/iStockphoto

After a parade of deals in the Canadian oilpatch in 2023, experts expect a steady pace of mergers and acquisitions to continue this year, with mounting interest in the prolific Montney formation.

Data from Sayer Energy Advisors tracked \$16.2 billion of M&A activity among upstream oil and gas companies last year through 58 separate deals, topping the \$15.4 billion recorded in 2022.

The biggest deal last year saw ConocoPhillips buy half of the Surmont oilsands project from France's TotalEnergies for \$4.4 billion. Calgary-based Crescent Point Energy purchased assets in the Montney from Spartan Delta Corp. for \$1.7 billion last March, and announced the \$2.6-billion acquisition of Hammerhead Energy in November.

Other major transactions included Suncor Energy paying \$1.5 billion for TotalEnergies' stake in the Fort Hills oilsands project, and Tourmaline Oil acquiring Bonavista Energy for \$1.45 billion.

More stability in oil prices last year compared with 2022, and ongoing industry consolidation helped drive activity higher last year, Sayer president Tom Pavic said Wednesday.

He also expects a busy year in 2024.

“You will still definitely see deals being done,” Pavic said. “It will probably be a little lower . . . There is less product currently available for sale right now.”

Oil and gas sector deals in Canada have jumped sharply since 2019, with commodity prices crashing at the start of the pandemic followed by a sharp recovery that created motivated sellers.

Benchmark U.S. oil prices soared above US\$100 a barrel following Russia’s invasion of Ukraine in 2022, but have stabilized in the \$70-range mark in recent months — West Texas Intermediate crude closed at \$71.37 on Wednesday — a profitable level for the sector.

With cash flow levels surging, most companies have paid down debt and are in a fortified financial position.

“We are in a period of energy profitability that we haven’t seen in over 50 years,” said David Szybunka, senior portfolio manager with Canoe Financial.

He expects a robust period of mergers and acquisitions in the next 12 months, as valuations in the sector become more differentiated by investors.

“It’s driven by balance sheets that haven’t been this clean ever, and (trading) multiples are diverging,” Szybunka added.

The pace of acquisitions south of the border was torrid last year, led by ExxonMobil purchasing Pioneer Natural Resources for US\$59.5 billion and Chevron buying Hess for US\$53 billion.

In a report issued Wednesday, energy consultancy Wood Mackenzie forecast that “another banner year for M&A will focus on scale, performance improvement and diversification.”

As the industry matures, size will matter, it noted.

In Canada, a strong year is anticipated, particularly as producers look to consolidate their holdings in the Montney formation, which spans the Alberta-B.C. border.

Wood Mackenzie research analyst Tyson Gervais noted 10 small and medium-sized publicly traded producers are active in the Montney and potentially any one of them could be active securing deals this year, either as a buyer or seller.

“I would say the Montney will definitely drive 2024. It is a fragmented basin and there are still a lot of parcels to pick up,” he said.

“Canada is due for a major deal . . . We haven’t seen a real blockbuster deal in Canada for a couple of years.”

There are active private buyers and sellers on the scene as well.

On Wednesday, newly formed Parallax Energy — an exploration and production firm led by former leaders of Pipestone Energy — announced it closed an equity commitment from Houston-based Carnelian Energy Capital.

CEO Dustin Hoffman and chief financial officer Dan van Kessel said Parallax will have a broad acquisition strategy in Western Canada, looking for properties where they can use new drilling and well-completion technologies to optimize the assets.

“We have got a lot of support to look at acquisitions, anywhere from C\$25 million up to, I’d say, about a half-a-billion dollar range,” van Kessel said.

Across the Canadian sector, he expects some larger producers that recently completed transactions backed by debt will be looking to divest non-core assets, while smaller public companies could be open for business, along with older privately held firms that are now looking to sell.

“This is going to be a very active year for M&A. From a commodity price standpoint, which is driving a lot of activity, we’re in a bit of a sweet spot right now,” he added. “It feels like there’s a lot of space for folks to make deals happen.”

Analyst Phil Skolnick at Eight Capital expects the pending startup of the mammoth LNG Canada project in 2025 could also spur natural gas producers to hunt for inventory.

Another trend analysts say could emerge this year is the presence of U.S. buyers at the table in Canada, reversing a shift that saw many foreign producers leave the country following a deep industry downturn last decade.

Canada will be an active M&A market, particularly focused on the Montney, given its long-life resources and the growth of infrastructure in the region, said Andrew Dittmar, a senior vice-president at energy analytics firm Enverus.

“U.S. companies are going to start taking a hard look at Canadian assets — which would be the Montney — as the U.S. resource plays mature,” Dittmar said from Austin.

“We are getting more questions about Canada and the Montney from U.S. companies. We think there’s real interest in going north of the border and finding the opportunities to get into a play that is still, more or less, in its early stages.”

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