

Wave of billion-dollar oilpatch deals a sign of bullish Canadian energy sector

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A wave of high-profile mergers and acquisitions in the Canadian oilpatch is a sign of an industry that is flush with cash and increasingly confident in the short- and medium-term outlook for fossil fuels, experts say.

Since the start of the year, there have been a number of billion-dollar-plus deals struck in the Canadian energy sector, including Crescent Point Energy Corp.'s \$1.7-billion purchase of Spartan Delta Corp.'s Montney oilfield assets, ConocoPhillips' approximately \$4-billion purchase of TotalEnergies' Surmont oilsands project, and Suncor Energy Inc.'s \$1.47-billion acquisition of Total's stake in the Fort Hills oilsands mine.

The latest headline-grabbing deal was announced Monday, when Tourmaline Oil Corp. — Canada's largest natural gas producer — said it would purchase privately held Bonavista Energy Corp. for \$1.45 billion.

Strathcona Resources Ltd. also recently merged with Pipestone Energy Corp. in an all-stock deal, with the merged company expected to be the fifth largest oil producer in the country.

According to figures from Calgary-based Sayer Energy Advisors, M&A activity in the Canadian energy sector has totalled \$12.7 billion since the start of 2023. While that's less than the \$15.2 billion and \$17.9 billion the sector saw in 2022 and 2021, respectively, it is occurring at a time when the Canadian oilpatch has now benefited from two years of strong commodity prices. Many companies are flush with cash and have rapidly been paying down debt, giving them a strong enough balance sheet to pursue growth through acquisitions.

"I think you'll still see some more consolidation, for sure. I think there's still going to be some more transactions," said Tom Pavic, president of Sayer Energy Advisors.

"A number of companies have the capital to pursue these transactions — they've been generating quite a bit of cash flow."

Heather Exner-Pirot, director of energy, natural resources and environment for the Macdonald-Laurier Institute, said the Canadian oilpatch saw a significant amount of consolidation in 2021 as the country began to emerge from the COVID-19 pandemic. But she said the deals that are happening now are very different.

"Immediately post-COVID it was a sign of weakness. There were some companies that just weren't going to make it and were vulnerable, and were ripe for the picking by those that were still strong enough to do it," she said.

"Now what I think we're seeing are signs of strength. These companies have excellent balance sheets and the capacity to go and acquire and strengthen their empires."

South of the border, U.S. multinational oil giant Exxon Mobil Corp. announced last week it will acquire Pioneer Natural Resources in a US\$59.5 billion mega-deal.

That merger has been interpreted by many industry watchers as Exxon demonstrating its confidence in fossil fuels, even as the world continues to seek to transition to lower-carbon energy sources in order to slow the pace of climate change.

Exner-Pirot said she agrees with that assessment, and added that the global energy crisis sparked by Russia's invasion of Ukraine has brought investors flooding back to the industry on the assumption that fossil fuels will still be in high demand in at least the short and medium term.

"(Oil and gas) is the best-performing sector, and I think investors are looking for ways to get back into energy," she said.

"Definitely, people are feeling bullish."

Still, Exner-Pirot pointed out that Canada's energy sector has far fewer players now than it did prior to the oil price crash of 2015, an industry-shaking event that drove another major wave of consolidation. She said the fact that so much consolidation has already occurred naturally limits the amount of deal-making that can take place now.

"Where Exxon and Pioneer made sense is that so much of their land overlapped. So you really could get efficiencies by combining them — you really could produce a cheaper barrel," she said.

"And I think the extent to which that's possible in the Canadian oilpatch is starting to diminish, only because there have been so many acquisitions. I don't think we're going to see a whole tsunami of new deals."

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