

Daily Oil Bulletin

COPYRIGHT OF THE DAILY OIL BULLETIN 2015

M&A Value In First Half Of 2015 Down 52%, Year-Over-Year

AUG. 26, 2015 – [VIEW ISSUE \(/HEADLINES/2015-08-26\)](#)

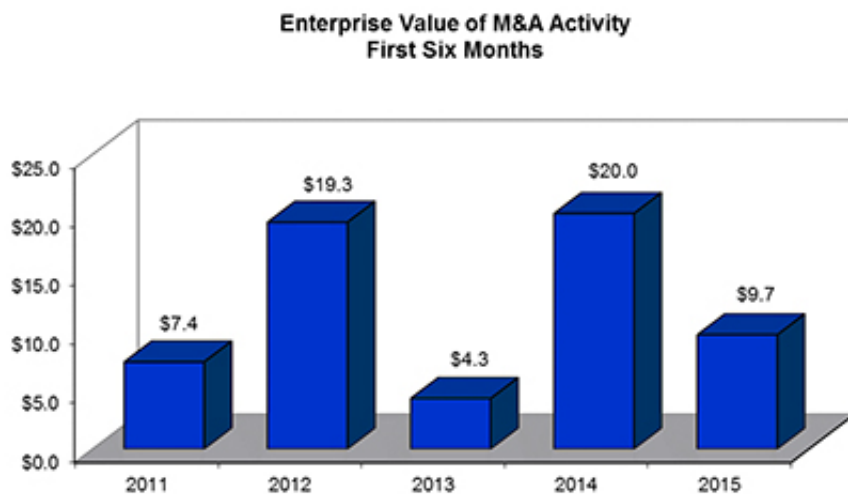


By: Ben Rye, Sayer Energy Advisors

The total enterprise value of merger and acquisition (“M&A”) activity in the Canadian oil and natural gas industry for the first half of 2015 was approximately \$9.7 billion, down 52% from the \$20.0 billion recorded in the first six months of 2014.

There was a significant decrease in M&A value year-over-year mainly because the number of large transactions (valued at over \$5 million) in the first half of 2015 decreased 36% to 48 from 75 large deals in the first half of 2014.

Of the 48 large deals in the first six months of 2015 there were two transactions valued at over \$1.0 billion, both of which took place in the second quarter. This compares to seven deals valued at over \$1.0 billion in the first half of 2014. These two transactions accounted for over 50% of the total M&A value in the first half of 2015.



The largest transaction in the first half of this year was **Cenovus Energy Inc.**'s sale of its wholly-owned royalty business, **Heritage Royalty Limited Partnership** to **Ontario Teacher's Pension Plan** for gross cash proceeds of approximately \$3.3 billion. The subsidiary held 4.8 million gross acres of royalty interest and mineral fee title lands in Alberta, Saskatchewan and Manitoba, with royalty production of approximately 7,800 boe/d. In addition, royalties on Cenovus' working interest production with implied first quarter volumes of approximately 5,400 boe/d, and a gross overriding royalty on Cenovus' heavy oil property located in the Pelican Lake area of northern Alberta, and its Weyburn, Saskatchewan enhanced oil recovery project were included in the transaction. Implied first quarter volumes for the PelicanLake and Weyburn properties were 1,600 boe/d, amounting to an aggregate 14,800 boe/d in total royalty production attributed to the transaction.

The second-largest deal in the first half of 2015 was **Crescent Point Energy Corp.**'s acquisition of all the issued and outstanding shares of **Legacy Oil + Gas Inc.** for approximately \$1.8 billion. Crescent Point is forecasting its average daily production for 2015 to increase to 165,500 boe/d (weighted 92% oil) as a result of this acquisition. Concurrent with the transaction, Crescent Point completed a \$660.1 million bought deal equity financing. Legacy's main producing Canadian properties were located in the Alameda, Heward, Midale, Pinto and Taylorton areas of Saskatchewan, the Pierson area of Manitoba, the Elmworth and Turner Valley areas of Alberta and the Maxhamish area of British Columbia.

Much like Crescent Point with the acquisition of Legacy, there were also other companies which were actively acquiring other companies or assets during the first half of 2015 by using their shares as currency. Other examples include **Kelt Exploration Ltd.**'s purchase of **Artek Exploration**

Ltd., TORC Oil & Gas Ltd.'s acquisition of Saskatchewan assets and **Tourmaline Oil Corp.**'s purchase of **Mapan Energy Ltd.** and acquisition of assets from **Perpetual Energy Inc.**

Kelt purchased Artek for approximately \$316.5 million. TORC acquired light oil assets located in southeast Saskatchewan from an undisclosed buyer through the issuance of 16 million shares of TORC, equating to total consideration of approximately \$146.7 million. Tourmaline issued 6.75 million shares for the acquisition of Perpetual's interests in the West Edson area of Alberta, equating to an acquisition price of approximately \$256.5 million. The acquisition resulted in Tourmaline holding a 100% working interest in the property. Tourmaline also purchased Mapan for \$133.0 million through the issuance of shares. Additionally, two smaller acquisitions were completed by **Maple Leaf Royalties Corp.** through the issuance of shares valued at \$9.0 and \$10.6 million to two private oil and natural gas funds.

Another significant transaction in the first half of 2015 in which the buyer predominantly used its shares as currency was **Whitecap Resources Inc.**'s acquisition of **Beaumont Energy Inc.** for \$587.5 million. The consideration consisted of approximately \$7.3 million in cash and 36.3 million common shares of Whitecap, along with the assumption of Beaumont's debt. This acquisition was partially funded with a concurrent bought deal equity financing for \$110 million. Beaumont's main producing property was located in the Kerrobert area of Saskatchewan, and its interests offset Whitecap's lands and production in the EagleLake and Lucky Hills areas of Saskatchewan. Whitecap identified an inventory of 715 drilling locations for Viking development on Beaumont's lands.

Of the \$9.2 billion in large transactions in the first six months of 2015, \$5.4 billion was allocated to property deals, and \$3.8 billion allotted to corporate transactions. Of the 48 large transactions during the first half of this year, 36 were property deals and the remaining 12 were corporate. This compares to the first half of 2014, when the split between large corporate and property transactions was 15 corporate deals totalling \$4.3 billion in enterprise value and 63 property deals with an aggregate value of \$15.5 billion. The trend of property transactions being favored over corporate deals extends back through to 2013.

During the first half of 2015, large oil-weighted transactions accounted for \$7.7 billion in aggregate value and large natural gas-weighted transactions made up the remaining \$1.5 billion. This compares to 2014, when 42 of the 78 large transactions in the first six months were oil-weighted, with total enterprise value of approximately \$7.4 billion and the remaining 36 deals were weighted towards natural gas, with total enterprise value of \$12.4 billion.

Another trend which began to develop in the latter part of the first half of 2015 is the increase in the number of transactions involving royalty interests. The previously mentioned \$3.3 billion deal between Cenovus and Ontario Teacher's Pension Plan was also the largest royalty deal, followed by **Freehold Royalties Ltd.**'s purchase of mineral title and royalty interests from **Penn West Petroleum Ltd.** for \$318.0 million. **PrairieSky Royalty Ltd.** made three royalty acquisitions in the second quarter of 2015 from **Manitok Energy Ltd.**, Perpetual, and **Traverse Energy Ltd.** PrairieSky acquired a 5% gross overriding royalty in the Wayne area of Alberta from Manitok for \$6.5 million, representing approximately 89 boe/d of net royalty production. From Perpetual, PrairieSky acquired 206,712 net acres of fee mineral title lands and partial ownership in seismic data for \$21.0 million, complementary to its existing land position in central Alberta. The third acquisition by PrairieSky was Traverse's royalty interest in ten sections of land containing 22 producing horizontal Cardium oil wells in the Brazeau area of Alberta for \$9.0 million.

In addition, Manitok, **Marquee Energy Ltd.** and **Toro Oil & Gas Ltd.** completed production volume royalty transactions during the first half of 2015. Both Manitok and Marquee sold production volume royalties to Freehold for proceeds of \$25.0 million and \$20.0 million respectively. Toro sold a light oil production volume royalty to **Source Rock Royalties Ltd.** for \$8.0 million in the second quarter of 2015.

In analyzing data from the last five years, the total value of M&A activity in the first six months of 2015 appears to beat a normal level. In the third quarter of 2015 there have been a number of transactions to date. For the remainder of 2015 capital will continue to be scarce for many oil and natural gas companies and thus they will look to the M&A market for capital either through asset sales or through the outright sale of the shares of the company. In addition, the trend of share-for-share transactions, as well as royalty transactions, are anticipated to continue for the remainder of the year.

ARTICLE SECTION: [MARKET INTELLIGENCE \(/SECTION/MARKET-INTELLIGENCE/\)](#)

ARTICLE CATEGORIES: [ANALYSIS \(/CATEGORY/ANALYSIS/\)](#), [MERGERS AND ACQUISITIONS \(/CATEGORY/MERGERS-AND-ACQUISITIONS/\)](#)