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Paul Wells

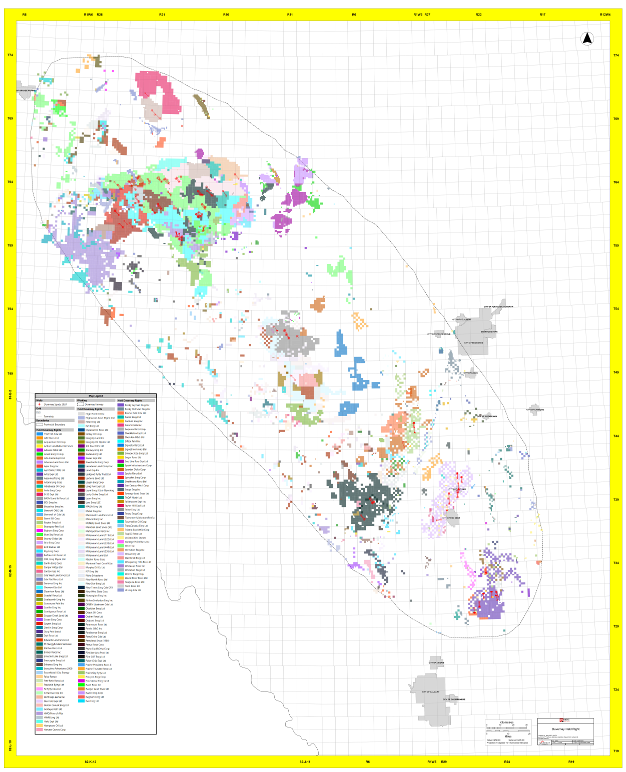
Industry Analysts Expect More Duvernay M&A Going Forward

Canadian Natural Resources Limited's [$6.5-billion acquisition] of **Chevron Corporation**'s Alberta-based assets, including those in the Duvernay, marked the company's entry into the play and could help spur on more Duvernay M&A, say industry analysts.

"Obviously the CNRL deal was pretty significant with part of that also being oilsands assets they were buying with the other portion being the Duvernay. So again, it was pretty significant. It was nice to see the deal size," said **Ben Rye**, vice-president of **Sayer Energy Advisors**.

"Basically with a deal like that, I think we had less than half that amount [of Canadian oil and gas M&A] activity year-to-date before that one was announced. One deal doubling the size of activity year-to-date is encouraging. And it does continue this growing trend of consolidation in the Duvernay," he added.

"We expect to see some more consolidation of that nature — I wouldn't be surprised if we saw more."



Map courtesy geoSCOUT

Jeremy McCrea, managing director of **BMO Capital Markets**' energy equity research team, said the size and scope of the transaction was encouraging, although the exact breakdown of what CNRL paid for the Duvernay assets is difficult to determine.

That said, it's likely the Canadian major paid a premium to get a foothold into the play, which would continue a recent trend.

"I would say that a lot of these companies in terms of M&A are paying some pretty big premiums" like **Tourmaline Energy Inc.** recently did with its acquisition of **Crew Energy Inc.**

"And then when you look at what we've seen in the U.S. — we've seen four mega-mergers or acquisitions in the last couple of years — it really just shows you that inventory is becoming more prominent. And that's why we're starting to see some of these big premiums in the Duvernay and the Montney."

Looking ahead

According to McCrea, when it comes to future Duvernay M&A "the question is who's next?"

"Canada hasn't seen the mega-mergers that we've seen in the U.S. But we could potentially have a change with the federal government … and just with TMX up and running and the change in the regulatory macro environment for Canada, that likely could see more international operators come back and look at Canada," he added.

"So that's what's giving me more encouragement as to why we're likely to see some more high-priced acquisitions here, including potentially in the Duvernay, in the next six months. And as more acquisitions get announced and we continue to see the big premiums paid, that's when different investors are going to say, 'who's next here?' and speculate on who is going to also have a big premium takeout."

Both Rye and McCrea said that while drilling and completion costs continue to be whittled down, punching wells in the play remains a pricy endeavour. And that likely means that any potential acquirers in the play will likely have girth on their side.

"That's why when you see someone like CNRL come in and pick up that acreage to develop it, it makes a lot of sense because they have the capital to be able to do that," Rye said.

McCrea agreed, saying well costs in plays like the Duvernay and Montney are prohibitive to smaller entities.

"I think what you're going to see here in some of these higher-cost plays like the Duvernay and Montney where your well costs are around $10 million, is if you look at how much those economics have improved here over the last few years just with some of the new casing and completion designs, it's pretty remarkable. The base economics have improved quite a bit," he said.

"Now that the economics have improved it's going to start attracting the attention of more operators. So CNRL hasn't been in the Duvernay before and the fact that they've now come in and would be comparing the Duvernay economics relative to their Montney and other oilsands operations is encouraging," McCrea added.

"The fact that they now think the Duvernay likely competes is why they're paying such a big premium and is a telling sign that there's likely more deals to be done in the Duvernay because it's a play that really hasn't seen much M&A here in the last decade because it was a play that really didn't make that much economic sense."