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Paul Wells

Western Canadian Second Half M&A Outlook Tepid

While relatively healthy in terms of the dollar figure, total western Canadian oil and gas sector merger and acquisition (M&A) activity in the first half of 2023 was largely dominated by two larger deals, say industry M&A analysts.

In fact, those deals made up about $6.1 billion of **Sayer Energy Advisor**'s current estimate of $7.7 billion in overall western Canadian M&A activity during the first six months of this year.

Those deals were: In late May, **ConocoPhillips** exercized its preemption right to purchase the remaining 50 per cent interest in Surmont from **TotalEnergies EP Canada Ltd.** for approximately $4 billion as well as contingent payments of up to approximately $440 million, and **Crescent Point Energy Corp.**'s Q2 deal to buy Spartan Delta Corp.'s Gold Creek and Karr Montney assets to for cash consideration of $1.7 billion.

“We haven't finalized our numbers for the first half. We're working on that right now. But our estimate right now for the first half of 2023 was about $7.7 billion of M&A activity. And last year during the first six months it was $5.2 billion. If you want to look at 2019 it was $5.3 billion and 2018 was $7.6 billion,” **Tom Pavic**, Sayer president, told the *DOB*.

“So value wise, [2023] wasn't that much off.”

Pavic said Q2 2023 was “very, very quiet” and that the only deal of significance was the Conoco/TotalEnergies transaction.

“That was a $4.4 billion deal, so more than half of your total M&A value during the first half. The second quarter was very quiet. In the first quarter, there were some deals involving private companies and, of course, Crescent Point buying Spartan Delta's Montney assets. That was a $1.7 billion deal.”

Andrew Botterill, **Deloitte Canada**'s national energy and chemicals leader, said western Canadian M&A was defined by “some really big oilsands consolidation.”

But that well may soon to run dry as the playing field continues to shrink.

“There's only so many of these, right? So we're getting down to a very few players with very large projects. So they're going to become fewer and farther in between,” he said.

“That certainly was the theme at the start of the year.”

Entering 2023, Botterill and Sayer felt the market was trending up and that there would be a surge, at least somewhat, in oil and gas sector M&A activity. But that didn't materialize to the level anticipated.

“I had high hopes for M&A throughout this year. As we came into 2023 we saw relatively high oil prices and relatively high natural gas prices. And I felt like this was the time we were going to see some of that consolidation take place across more than just the oilsands,” he said.

"On the oil side, I think there will continue to be some deals here and there. I don't think it's going to be as remarkable as it was in the first half of the year. And on the natural gas side, I don't know. The natural gas price has softened so much that it's hard to imagine a seller being really excited about a $2 gas price. The valuations wouldn't be great," Botterill added.

"So I think we'll continue to see deals happen on the oil side, and then we may see some stressed deals happening more on the natural gas side if companies are finding themselves in tough cash flow situations. Maybe we see some stress that maybe brings buyer and seller together more quickly."

That said, Botterill isn't expecting a sizeable uptick in western Canadian deal-making as the second half of 2023 plays out.

"I don't know. I had a strong outlook entering this year and when I look at where we are, kind of sitting here in the middle of the year, I would expect that when we look back next year we'll see that the bigger activity was in the first half of 2023 because the prices were robust," he said.

Are certain plays in play?

With the Montney in both British Columbia and Alberta increasingly garnering industry attention, and the heavy oil Clearwater play ramping up because of strong economics and drilling results, both Botterill and Pavic were asked if those plays might be ripe for increased M&A.

"There's stressed deals in various plays all over. But they are not big headlines — they're generally small junior companies that are in some hot water. And it's a really small market and really small deals. The meaningful stuff? It is Clearwater. It is the Montney. The Montney is a world-class asset and it's a natural gas asset that will be producing well beyond many U.S. plays. So I think a lot of companies might use positions at times to consolidate, given that long-term horizon," Botterill said.

"I really do think the Canadian Montney will win every day of the week. So, I think we might see continued consolidation. Those deals are going to be really opportunistic. But I think bigger deals will take bigger prices than right now because the seller would be quite happy at $2 gas to continue to deploy some capital and pay those wells off in 12 to 8 months and have some reasonable cash flow and be not a growth company, but a flat company and do quite well. Even at $2 gas. That's how good the Montney is," he added.

"So, we may not see the big consolidation in the Montney that I had hoped to see this year."

Similarly, Sayer's Pavic is also not expecting to see a second-half surge in western Canadian M&A activity.

"I think you'll see some more maybe in terms of the volume of deals in comparison to Q2. I think the total M&A value will probably be similar to what we saw last year, which was around $15.5 billion," he said.

"So we're right on pace for that."