# Gary Lamphier: Oilpatch mergers and acquisitions deals increase for all the wrong reasons

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More from Gary Lamphier, Edmonton Journal (HTTP://EDMONTONJOURNAL.COM/AUTHOR/GARY-LAMPHIER-EDMONTON-JOURNAL)

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The good news: deal making in Canada's oil and gas sector is up sharply this year.

Through the first six months of 2016, the total enterprise value (equity plus debt) of oilpatch mergers and acquisitions jumped 60 per cent to $15.5 billion. That's up from $9.7 billion in the first half of 2015, says Sayer Energy Advisors of Calgary.

Most of the transactions in the first half were oil-weighted deals.

Through August, the year-to-date tally has swelled to $17.8 billion, says Ryan Ferguson Young, who tracks mergers and acquisitions data for the Calgary-based corporate advisory services firm.

The bad news? The big jump — inflated by Suncor's $8.3-billion purchase of Canadian Oil Sands in February — appears to be for all the wrong reasons.

A prolonged period of weak oil and natural gas prices has pushed many producers to the brink, leaving them with crippled cash flows, impaired balance sheets, mounting asset write-downs, shrinking bank lines and limited access to equity capital.

That has prompted a pickup in distressed asset sales. Few believe the process is over yet, with oil prices backtracking again as the fall shoulder season looms.

Tack on the other issues facing Alberta's energy sector — the long-running stalemate over new oil pipelines and the pending rollout of new carbon taxes, among other things — and it's clear why foreign investors are taking a cautious approach toward Alberta's key industry.

Instead, the big money in the U.S. is going offshore to places such as Brazil, Papua New Guinea or Kazakhstan, as well as the prolific Permian Basin in Texas, where costs are lower, there is ready access to markets and carbon taxes are viewed as a communist plot.

More than $11 billion US of energy transactions were announced globally in July, says data compiled by industry consultant Wood Mackenzie Ltd. That's the highest monthly total for this year and brings the tally since May alone to $32 billion, Bloomberg reports.

As one Calgary-based corporate finance executive tells me, "no source of outside capital gets the warm and fuzzies that Alberta is the place to do business right now, and that's not about to change any time soon."

Some small or mid-size players have been forced by their bankers to dump assets. Others have put the entire company on the auction block. Example: RMP Energy, whose core assets are in the Montney area of west-central Alberta.

Suncor's all-stock deal for Canadian Oil Sands, a Syncrude partner whose shares once traded in the $25 range, was viewed by many as a life raft for the struggling company. The deal, which valued COS shares at less than $9 apiece, boosted Suncor's stake in Syncrude to 49 per cent, up from just 12 per cent.

The second-biggest deal of the first half was Teine Energy's $975-million purchase of the southwestern Saskatchewan assets of debt-laden Penn West Petroleum. Teine was backed by the Canada Pension Plan Investment Board.

Suncor followed up the COS purchase with a $937-million deal in April to acquire U.S.-based Murphy Oil's interest in Syncrude. That brought Suncor's overall Syncrude stake to 54 per cent.

Of the 56 major transactions (worth $5 million or more) in the first half, $5.8 billion were property deals, while $9.4 billion were corporate transactions, says Sayer.

Spartan Energy, Birchcliff Energy and Whitecap Resources were among the most active buyers in the first half, it notes. Whitecap completed several purchases worth more than $700 million in total, including a $595-million deal to acquire Husky Energy assets in southwestern Saskatchewan.

The third quarter has also been busy thus far. The $1.9 billion purchase by Seven Generations Energy of Paramount Resources' Kakwa-area assets in the Montney district ranks as the biggest deal to date.

Like Teine Energy, Seven Generations was backed by the CPP Investment Board. Some believe the board's support allowed Seven Generations to pay a richer price than would otherwise have been warranted.

"The pension funds have taken a really weird approach to netbacks and rates of return. The Seven Generations deal with Paramount was a crazy one where they paid a really big price for the assets from Paramount," says Josef Schachter, a veteran energy analyst with Maison Placements Canada.

"The Penn West deal with Teine Energy was also made at a ridiculous price. The rate of return the pension funds are using is so much lower than the rate of return required by the industry normally. So the prices we've seen have been pretty high and that's helped the transactions."

Among the other deals announced so far this quarter, Yoho Resources was taken private by One Stone Acquisition Co.; Marquee Energy and Alberta Oilsands announced a strategic business combination; and ARC Resources and TORC Oil & Gas announced asset purchases, Sayer says.

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