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Cancelled asset sales and fewer financings are making oil and gas deals ‘a grind’

Closing deals in Canada’s oil and gas exploration and production sector has become “a grind” given the combination of over-leveraged buyers, anemic capital markets and pipeline uncertainty, according to industry executives.

JONATHAN HAYWARD/THE CANADIAN PRESS

Pipes are seen at the Kinder Morgan Trans Mountain facility in Edmonton, Alta., Thursday, April 6, 2017.

Data from Evaluate Energy shows oil and gas producers have put producing assets pumping more than 180,000 barrels of oil equivalent per day up for sale in Western Canada as well as undeveloped land, but M&A advisers in Calgary say finding buyers for the assets is increasingly difficult with each new pipeline delay.

There have been three small deals — one pending and two proposed — in the pure oil and gas space, valued at a grand total of $4.4 million, according to Bloomberg data. Oil and gas services fared slightly better with two deals since the start of the year, led by Shawcor Ltd.’s $308-million pending acquisition of ZCL Composites Inc. Tidewater Midstream and Infrastructure Ltd. is selling its Pipestone Gas Plant’s 32MW cogeneration units to privately-owned Kineticor Resource Corp. for $85 million.

Closing a transaction in the oil and gas sector has become “a grind,” challenging and tough, said Alan Tambosso, president of Sayer Energy Advisors, a Calgary-based deal broker currently marketing several smaller oil and gas producing properties.

Since the beginning of the year, Devon Energy Corp. has announced its intentions to sell its oilsands and heavy oil assets in Alberta, Crescent Point Energy Corp. has put assets in southeast Saskatchewan up for sale alongside other non-core assets and Pengrowth Energy Corp. announced a strategic review and may sell itself to another company.

In February, Cenovus Energy Inc. announced it would close data rooms it had opened for a series of noncore assets. Cenovus president and CEO Alex Pourbaix said the company had received bids for the properties but wasn’t comfortable selling at the prices offered so the company has opted to hold them for now.

Some energy companies put assets up for sale, only to eventually take them off the block. “It’s certainly not a guarantee that if you do decide to market some assets that they’re going to sell,” said Cheryl Sandercock, managing director, energy, investment and corporate banking at BMO Capital Markets.

“If it’s not critical that you sell, there’s less of a taint to assets that have been marketed and then been retained by the potential vendor,” Sandercock said, noting that withholding assets for a better price is a vote of confidence in the asset itself.

There are a lot of big-ticket assets on the market in the oilpatch right now but financing activity is down sharply and, as a result, would-be buyers don’t have the financial flexibility to purchase assets. In addition, many of the logical buyers for the assets on the block are still digesting prior blockbuster deals struck in previous years and higher leverage would make it difficult to transact.

“We’re at historically low levels of financing,” Tambosso said, adding that his advisory firm is seeing a low level of activity as a result.

Tambosso said the total amount of capital raised in the energy sector fell 75 per cent in 2018 to $5 billion, two-thirds of which was debt financing, compared with $22.4 billion in 2017.

Additional delays to new pipeline projects, including a one-year delay for Enbridge Inc.’s Line 3 and the possibility of Transcanada Corp.’s Keystone XL being further delayed is only exacerbating the problem. Oil producers hope construction resumes on the federally owned Trans Mountain pipeline this year, after a Federal Court of Appeal decision overturned approvals and delayed the project in late 2018.

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