Blockbuster $8.8-billion Chevron deal further consolidates Canadian control over oilsands

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The move continues a trend of consolidation of ownership in the Canadian oilsands

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Gas prices hit a whopping 232.9 at the Chevron at Main Street and East 12th Avenue in Vancouver on Sept. 26, 2022. Photo by Mike Bell

In a blockbuster deal dwarfing all other transactions in the oilsands this year, Chevron Corp. has agreed to sell its stakes in Western Canada to Canadian Natural Resources Ltd. for US$6.5 billion.

The deal involving the sale of Chevron's 20 per cent interest in the Athabasca Oil Sands Project and 70 per cent stake in the Duvernay shale — both located in Alberta — is worth more than $8.8 billion, easily doubling the approximately $4 billion in M&A transactions announced in the Canadian oil industry since the start of the year, according to Sayer Energy Advisors, which tracks deal activity in upstream oil and gas.

"Oh, this is big," Sayer president Tom Pavic said. "More than double what we had in the first nine months of 2024."

The deal eclipses Tourmaline Oil Corp.'s $1.3-billion acquisition of Crew Energy Inc. in August as the largest Canadian oil transaction of the year and represents the largest transaction for the sector since Cenovus Energy Inc. acquired Husky Energy Inc. for $3.8 billion in 2020, according to analytics firm

Enervus Inc.

Chevron's move also continues a trend of consolidation of ownership in the Canadian oilsands, following the exit of other large international oil producers in recent years, including BP PLC, ConocoPhillips, Devon Energy Corp. and Shell PLC, further cementing control of Canada's heavy oil deposits in northern Alberta in the hands of a trio of local firms: CNRL, Cenovus and Suncor Energy Inc.

"It's continuing that trend that we saw a few years ago regarding oilsands interests, for sure, by some of the international players divesting," Pavic said.

Markets appeared favourable to CNRL's acquisition, with the company's share price rising following the announcement.

"The move reflects optimism about the oilsands from one of the companies that knows it best," said Heather Exner-Pirot, director of energy, natural resources and environment at the Macdonald-Laurier Institute, adding that CNRL has added significant production at very low risk to the company.

"Now, CNRL has an even bigger piece of a very good pie," she said.

CNRL said it expects production from the acquired assets to average the equivalent of about 60,000 barrels of oil per day in 2025, along with about 179 million cubic feet per day of natural gas and 30,000 barrels per day of liquids.

The Calgary-based producer is financing the deal with a US$4-billion term loan from the Bank of Nova Scotia and Royal Bank of Canada. The all-cash deal has an effective date of Sept. 1 and is expected to close during the fourth quarter, subject to regulatory approval.

CNRL on Monday also announced it will increase its quarterly dividend by seven per cent.

Chevron's departure from the oilsands was not entirely unexpected since the company had previously indicated a desire to sell more than US$10-billion worth of assets during the next few years as it concentrates on growth in the Permian basin in the United States and its Tengiz field in Kazakhstan, where a US$48.5-billion expansion project is nearing completion.

Market watchers have speculated that international players have exited Canada's oilsands sector in recent years due to the costly and emissions-intensive nature of the basin, fuelling concerns about the future viability of Canadian heavy oil exports, though the sector received a jolt last spring with the completion of the Trans Mountain pipeline expansion, which has opened Asian markets to Canadian crude.

"We expect Alberta's access to Asian markets to continue to grow," the press secretary for Alberta Energy Minister Brian Jean said in a statement. "Our premier has called on Alberta's energy industry to increase production and we intend to do so while making the most ethical and responsibly produced oil in the world. We are confident in the long-term future of the oil sands."

Previously, Canadian producers had to rely solely on exports to U.S. refineries, forcing steep discounts on their barrels of crude.

The Trans Mountain pipeline's expansion allowed 28 million more barrels of crude to be shipped to the country's West Coast from June to mid-September, almost two-thirds of which headed to China, India, South Korea and Brunei.

Oil companies, including CNRL, have largely been plowing their profits into shareholder returns rather than investing in exploration. Some analysts cautioned that the deal with Chevron could slow CNRL's promised payouts to investors.

"Although we do not doubt the company's ability to capture medium-term value through operational effectiveness, we do caution the return of capital profile timelines under forward strip," Travis Wood, an analyst at National Bank of Canada, said in a note.

Earlier this year, CNRL began putting 100 per cent of the company's free cash flow into dividends and share buybacks. Following the deal with Chevron, the company has revised its capital allocation strategy, with 60 per cent of free cash flow going to shareholder returns until a net debt level of $15 billion is reached.

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