Cenovus unveils $7.9-billion white-knight bid for MEG Energy

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MEG's board supports the deal, but shareholders have to approve

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MEG Energy's Christina Lake thermal oilsands project, seen in 2013. Photo by MEG Energy

Following weeks of speculation, Cenovus Energy Inc. unveiled a $7.9-billion white knight bid for MEG Energy Corp. on Friday, a majority-cash, part-stock offer that has the blessing of MEG's board after it rejected a hostile takeover attempt by Strathcona Resources Ltd.

The oilsands major is offering $20.44 in cash plus 0.33 of a Cenovus share for each MEG share, with an implied value of $27.25 per share of MEG, representing a 33 per cent premium to MEG's pre-bid share price, but a slight discount to its current price.

MEG called it “the best strategic alternative” to either Strathcona's bid or the company's standalone plans, noting its board unanimously supports the deal, although shareholders will ultimately make the decision whether to accept Cenovus' offer.

“Through the process, it became clear that bringing together MEG and Cenovus's Christina Lake assets is a unique opportunity for synergy realization that will maximize the value of the resource for the benefit of its stakeholders,” MEG chief executive Darlene Gates said in a statement.

MEG's shareholders will vote on the deal at a special meeting in early October, with the law requiring approval by at least two-thirds of the votes cast.

On a conference call Friday morning, Cenovus chief executive Jon McKenzie fleshed out details of the friendly bid, first reported by the Financial Post, that would bring together two large oilsands producers with neighbouring assets in northeastern Alberta.

“The synergies that we have identified are unique to Cenovus and result from the proximity of our assets and our differentiated operating strategy,” he said. “The transaction will bring our oilsands production to over 720,000 barrels a day with plans to grow to over 850,000 barrels a day by 2028; it enhances our cash flow and free funds flow profile while allowing us to maintain our strong financial position.”

Cenovus had sought financing to support a potential bid for MEG in July, according to sources, and Friday’s announcement ends weeks of speculation from investors and market watchers that the oilsands major was a “logical” and likely buyer for MEG. Cenovus’s shares rose more than four per cent on news of the offer on Friday morning.

“I wasn’t surprised; it seems all along they were one of the main contenders,” said Tom Pavic, president of boutique energy advisory firm Sayer Energy Advisors, which tracks oil and gas deal activity.

If the deal proceeds, it would be one of the largest M&A moves in Canada this year, and it would be similar in size to Canadian Natural Resources Ltd.’s blockbuster acquisition of Chevron Corp.’s assets in Alberta late last year, he said.

In the meantime, the clock is still ticking on Strathcona’s unsolicited offer of $4.10 in cash plus 0.62 of a Strathcona share for each MEG share, representing a total implied value of $28.17 per MEG share based on Thursday’s market closing price.

Strathcona’s offer remains open until Sept. 15, though MEG on Friday said it is continuing to urge shareholders to reject the bid. MEG previously called Strathcona’s unsolicited offer “inadequate” and “not in the best interests of shareholders” before launching a sales process in June to review its options and invite competing bids.

Cenovus’s offer is the complete inverse of Strathcona’s, Pavic said, because Strathcona offers upside with stock, whereas Cenovus’ cash-heavy, stock-light offer provides certainty and liquidity.

“And Cenovus’ stock is very liquid, so it’s almost like cash, too,” he said.

Strathcona chair Adam Waterous on Friday criticized MEG’s board, suggesting it was acting out of resentment for being put on the auction block as a result of his company’s unsolicited offer last May.

He also said MEG’s board was endorsing a sale to Cenovus at a price roughly one dollar per share below the latest value of Strathcona’s majority-stock-plus-cash deal.

“Hats off to Cenovus for preying on a weak board which owns almost no shares in the business and clearly adopted an ‘anybody but Strathcona’ view as a result of Strathcona putting the company in play,” Waterous said in a statement. “I am sure Cenovus felt that negotiating with MEG’s board was like taking candy from a baby.”

Although MEG’s shareholders still have decisions to make, Eric Nuttall, partner and senior portfolio manager at investment firm Ninepoint Partners LP, said he believes Cenovus has emerged with the superior bid and that the deal will close.

But Nuttall, whose firm holds stock in both companies, said he’s disappointed in the price Cenovus is offering, calling it “well below” his estimates for the long-term fair value of the company, which he pegged at closer to $50 per share.

Strathcona forced MEG into play while energy stocks are out of favour, oil prices are weak and rival producers are likely to face tight access to capital, he said.

“The company was put into play at horrific timing by someone who’s proven to have created value in the past by being a contrarian, but I think he was gambling on another party not coming to the table, and that happened,” Nuttall said.

“I don’t think this was his desired outcome. I think it was to acquire the company at a depressed valuation and fix many of the challenges or problems that he has at Strathcona.”

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