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Oil patch optimistic as deal activity picks up speed

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Equity financings in oil and gas, as well as in energy infrastructure, are flying out of the gate in October. These deals are stoking optimism that recent lean times, which had hit Bay Street hard, are coming to an end.

The latest development is a $175-million share issue by Bellatrix Exploration Ltd., which it announced Tuesday along with its takeover of Angle Energy Inc. and its joint venture with South Korean private equity fund Troika Resources. Bellatrix's share issue pushes the value of stock deals in energy-related sectors since Sept. 30 to at least $1.4-billion.

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Bellatrix said it is selling the shares in a bought deal co-led by Canaccord Genuity Corp. and Dundee Securities Ltd. Proceeds from the issue will help fund the $576-million Angle deal and $240-million joint venture.

Since the start of this month, issues in exploration and production alone have topped $730-million. That would put October's tally above September and July, according to Sayer Energy Advisors. In August, the sector raised $1.19-billion.

In the first six months of this year, equity financings totalled $2.2-billion. That's down by half from the same period a year earlier.

The dearth of deals in the first part of this year led to a shakeout in the brokerage industry, with several shops closing their doors in Calgary and Toronto, and a number of professionals leaving to take jobs in the corporate world.

This year, Stonecap Securities Inc. closed its doors in Calgary, and Stifel Canada disappeared. Last month, Jennings Capital Inc. shook up its senior ranks *[http://www.theglobeandmail.com/report-on-business/streetwise/jennings-capital-replaces-ceo-shuffles-management/article14446529/]* to deal with the shortfall in business.

“It seems like we’re getting more flow, for sure,” said Sayer president Alan Tambosso. “I think we’re still down, but we’re seeing increased activity.”

There was a similar acquisition-and-share-issue combo last week, when Twin Butte Energy Ltd. agreed to buy the privately-held firm Black Shire Energy Inc., and announced that it would sell $70-million worth of equity. However, many of the deals feature flow-though shares, as companies look to take advantage of the coming end to the tax year. These shares allow holders to claim exploration deductions.

Such is the case with recent offerings from Paramount Resources Ltd., NuVista Energy Ltd. and Tourmaline Oil Corp. Tourmaline’s $193-million issue included both common and flow-through shares.

“It’s usually the last quarter of the year that we start to see the flow-through issues,” Mr. Tambosso said.

Energy infrastructure activity has also been brisk, with Inter Pipeline Ltd. closing a $345-million deal, and Edmonton’s Epcor Utilities Inc. uncorking a $201-million secondary offering of Capital Power Corp. shares. The offering, which was co-led by RBC Capital Markets, CIBC and Scotiabank, reduces Epcor’s stake in the electricity generating company to 19 per cent.

Investors’ enduring appetite for income-generating investments, in order to provide protection against market volatility, is driving this activity, said Steven Paget, analyst at FirstEnergy Capital Corp.

“They want to earn some of that cash up front via dividends so that they reduce their exposure to future cash flows and market valuations,” Mr. Paget said.

Indeed, companies offering healthy dividends have outperformed the larger energy group, providing a bright spot throughout 2013. Between the start of the year and August 30, TriVest Wealth Counsel Ltd.'s Canadian High-Yield Energy index, which includes companies involved in exploration and production, infrastructure and oil service, climbed 8 per cent. That compares with a 6.2 per cent increase in the S&P TSX Capped Energy index.

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