Will certainty of royalty regime trigger more oil patch deals?

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CALGARY — The Globe and Mail

Published Tuesday, Feb. 02, 2016 4:09PM EST

Last updated Tuesday, Feb. 02, 2016 4:34PM EST

With Alberta's energy royalty question settled, there's one more reason for oil patch deals to pick up.

Yes, 2015 turned out to be slower than expected for mergers and acquisitions, even as numerous companies found themselves drowning in debt due to skidding crude prices and their stocks sank to the bottom.

There's a belief, or, certainly among investment bankers, a hope, that things are about to pick up, and the increased certainty of the royalty regime adds to the body of evidence.

There were a few large transactions last year, including Cenovus Energy's sale of royalty and fee lands to the Ontario Teachers' Pension Plan Board for $3.3-billion and Canadian Natural Resources divestiture of similar assets to PrairieSky Royalty for $1.8-billion.

Suncor's $4.2-billion takeover of Canadian Oil Sands is not finalized yet, but the hostile-turned-friendly deal was first announced in early October.

Financial pain throughout the oil patch was widely expected to trigger more transactions as predictions of a lengthy oil price trough abounded. Deal makers were largely on the sidelines.

Check this out: In 2015, there were $15-billion worth of oil and gas acquisitions, including assumed debt. Some $6-billion of those represented takeovers of companies, and properties accounted for the remainder, according to Sayer Energy Advisors.

The year before, the industry notched $49-billion worth of deals, with $24.2-billion being corporate takeovers and the rest individual assets.

Some of that steep drop was courtesy of investors throwing their hands up in response to steep losses and turning attentions to other sectors, Sayer vice-president Tom Pavic says. Indeed, access to capital for deals or anything else tailed off something fierce.

According to the firm, financing totalled $16.7-billion, $10.5-billion of which was equity and the rest debt. In 2014, the industry tapped markets for $24.6-billion, including $11.8-billion worth of equity.

A frequent gripe among investors and energy executives was about uncertainty created by energy policies promised by Alberta's NDP government, including its climate and royalty frameworks.

The former was decided in late 2015. On the latter, there are figures to come that will determine the capital cost allowance for drilling and completing wells, which will be used for royalty rates that apply after capital is recouped.

But the overall thrust of the government's move is now in the public domain and reasonably well understood to be not onerous amid the oil shock.

In fact, the new system is structured so that the most efficient companies are rewarded. That makes the higher-cost players more vulnerable.

So pieces are falling into place. Besides financial stress and a need among many companies to sell either assets or whole organizations to satisfy lenders, there's some stability on commodity prices – albeit at a very low level – and now more fiscal certainty.

Tourmaline Oil uncorked the first notable post-new-royalty-system deal on Tuesday, although it was hammered out before the government announcement. The Mike Rose-led company snapped up assets in the Deep Basin region of northwestern Alberta for $183-million. They are located adjacent to its own holdings, and the company aims to boost production from the new acreage by as much as two-thirds by the middle of the year.

Dozens of Canadian companies have assets on the auction block, although all eyes are on three packages of properties being offered by Husky Energy that in total could fetch $2-billion to $3-billion, depending on the bids.

The assets produce about 60,000 barrels of oil equivalent a day, which, to put it in perspective, is equal to Penn West's expected 2016 output. Bids for the Husky properties are due in mid-March.

There are expectations for more deals globally too. Ernst & Young says the "valuation gap" between buyers and sellers of energy assets is narrowing as everyone gets more comfortable with low oil and gas prices persisting.

Hopes for a gusher of takeovers have been dashed several times since the energy crash began in late 2014, and that has only weighed on share prices.

Now, would-be buyers could get serious about digging into the bargain bin.

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