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# New Financings Point To Better Times Ahead

***By Paul Wells***

With crude oil prices holding steady for many months and the recent uptick in natural gas prices, Canadian oil and gas producers have managed to raise over $3 billion in the past few months as some investors are again warming up to the sector and its prospects.

But equity money has been flowing to companies with strong reputations and specific plans for the cash infusion. For smaller outfits, securing financing is still hard and the traditional surge in flow-through issues near year-end has not materialized.

With the recent success in equity financing, producers are expected to spend more on drilling and production, which should in turn help the service and supply companies.

"I think many of these deals set up producers to start drilling and defining resources which all said should be supportive of share prices and access to capital down the road again," said **Chris Theal**, managing director of oil and gas research with **Macquarie Capital Markets Canada.**

"I think it's going to result in more drilling and I do think it's going to have some influence on the merger and acquisition environment. It's been dead and I think we are going to see some consolidation in the smaller end of the market."

The news is encouraging although many in the junior sector are still finding the going tough in their attempts to tap into equity markets.

"We saw just a few financings in the spring but the recent strengthening of natural gas prices and the easing of global economic uncertainty has likely helped keep the equity window propped open," said **Gary Leach**, executive director of the **Small Explorers and Producers Association of Canada** (SEPAC).

"Certainly for the junior and mid cap sector, which is heavily reliant on external financing, there is a feeling the worst may be behind us."

Although a positive turn of events, Leach said the recent rush of financings is not an all encompassing trend as investors are choosing to throw their financial weight behind companies in a selective manner.

"The number of recent equity offerings has been impressive however there continues to be signs the market support remains selective," he said.

"This is not yet a tide which is lifting all boats -- management teams with a record of exceptional success are prominent and particular types of transactions such as acquisition or consolidation of assets in Saskatchewan is another recurring theme in the deals being done."

According to data provided by **CIBC World Markets Inc.**, from July 20 to Oct. 20 of this year there was $3.5 billion in Canadian-listed exploration and production financings. The average amount raised for the 39 issues during that time period was $88.6 million. For comparative purposes, during the same period in 2008, 14 issues resulted in $642 million being raised at an average size of $45.9 million. In 2007, there were 27 issues for a total of $2.2 billion at an average of $82 million.

"During this same three month period last year we were just grinding to a halt. We did no business and this year it kind of feels like a record year going forward," said **Roman Dubczak**, vice-chairman, head of equity capital markets for CIBC World Markets.

"Calling it a surge is right, although on a relative basis it's up only a bit from 2007, which was a pretty good year. So we're seeing a bit of catch up from last year and even earlier this year."

Year to date (to Oct. 20) there have been 91 issues for total of $7.5 billion at an average size of $82.4 million, well up from the same period last year when there were 71 issues, $3.9 billion raised at an average of $54.9 million per issue. In 2007, 130 equity financings occurred and raised a total of about $9 billion for an average take of $69.3 million.

"On a year to date basis we're not where we were in 2007, but it's still a hell of a nice rebound from last year," Dubczak said.

The single largest equity financing so far this year was on Oct. 14 when **Crescent Point Energy Corp**. announced a $575.3 million financing. **Petrobank Energy and Resources Ltd**. was next with a $464.8 million financing on June 25 while **Bonavista Energy Trust** arranged the third highest with its July 9 announcement that it had raised $421.3 million.

Aside from its recent $575.3 million offering, Crescent Point also raised $230.1 million in August and $230 million in March for a total so far this year of $1.04 billion, heads and tails above any other company in 2009. And Crescent Point's ability to raise funds through equity issues is not a surprise, according to Theal.

"I think equity markets are going to be open for companies that have good use of proceeds and Crescent Point consolidated in southwest Saskatchewan with the **Wave Energy** (**Ltd.**) deal and the Lower Shaunavon play and that's a good use of the proceeds," he said.

"Just look at some of the last few deals. **Trilogy** (**Energy Trust**) in the Montney and Kaybob, **Open Range** (**Energy Corp.**) is drilling in (the Alberta deep basin) - these guys have that resource potential that they haven't been able to put capital to work on. **Galleon** (**Energy Inc.**) in the Montney is another example," Theal said.

"That's what we're going to see from these proceeds. As long as you've got something identifiable to put money to work on, you're going to have an open window to the market."

Dubczak agreed that companies with a strong presence in resource plays and with solid management teams have a leg up when it comes to accessing the equity markets.

"If you look at the last several large equity offerings - Crescent Point, **Enerplus Resources Fund**, Bonavista as examples - they are all very specifically wrapped around asset plays," he said. "Those are all targeted plays and, in hindsight, well timed. Those are smart guys running those companies and they made acquisitions early before the run in natural gas prices."

Theal also said the looming Jan.1, 2011 taxation on trusts is also playing a role as many have - or will - convert from the trust model to what Theal and Macquarie are calling "high yield E&P stocks."

"Right now you've got Petrobank, **Progress** (**Energy Resources Corp**.) and Crescent Point that have all converted on a catalyst deal - they're bigger deals, they're outside of any safe harbour limits that were imposed and they're converting back to corporate on a deal like that," Theal said.

"I think what's happening is basically with the window now to taxation, we're going to see a whole lot more trust conversions with M&A catalysts associated with them. It speaks to mid and small cap M&A that we've yet to see."

Still, many junior companies are finding it difficult to raise capital through the equity markets and **Alan Tambosso** of **Sayer Energy Advisors** says that may continue for awhile.

"One of the things you historically see at the end of the year is a rise in flow through financings, and we're not seeing that right now and that's typically where the juniors fund their growth," Tambosso said.

"We're not seeing as many flow through financings as last year and that ties into money going to the bigger stories."

Although he wouldn't speculate on when the market may open up more to the junior sector, Tambosso said it's a cycle that has been witnessed in the past and that like all cycles, it will eventually rebound.

"We've seen these equity windows close in the past -- this is a typical pattern where it opens to the big guys first and then money starts to flow down to the smaller guys at a later date," he said.

"We keep hearing that there's money being horded right now -- particularly in North America - that's not being put into the market and that's probably people who used to invest in flow through type issues."

CIBC's Dubczak agrees: "Smaller players are having a tough time. In terms of flow through fund money it's pretty much a record low year that way. So there's not a lot of flow through funds kicking around and doing deals."

But Tambossa said that will eventually change as the economy recovers, companies start drilling again and shareholders start making money.

"When those people start opening up the mattress and looking for tax shelter, then I think you'll see the re-birth of money coming to the juniors through flow through," he said.

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