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Canada's Cenovus to buy Husky for $2.9 billion as pandemic drives oil mergers

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(Reuters) - Cenovus Energy Inc CVE.TO has agreed to buy rival Husky Energy Inc HSE.TO in an all-stock deal valued at C$3.8 billion ($2.9 billion) to create Canada's No. 3 oil and gas producer, as a pandemic-driven collapse in demand forces the industry to consolidate.

The combination, announced on Sunday, follows recent big deals in the United States. Concho Resources Inc CXO.N agreed this month to a takeover by ConocoPhillips COP.N for $9.7 billion. That followed Chevron Corp's CVX.N $4.2 billion purchase of Noble Energy.

The collapse in fuel demand during pandemic lockdowns has put additional pressure on companies in Canada, the fourth-largest global oil producer, forcing them to cut costs.

They have been under stress for six years, dating back to the last downturn, due to congested pipelines and the flight by foreign oil companies and investors from Canada’s high production costs and emissions.

Consolidation makes the Canadian industry leaner and lowers costs, said Jackie Forrest, executive director at the ARC Energy Research Institute, adding that deal-making is likely just getting started.

The deal makes Cenovus an integrated producer with refineries in Canada and the United States, adding to their existing half-ownerships in two U.S. refineries.

Acquiring refineries, pipelines and storage offered a solution to Canada’s often-congested pipelines, which have usually created price discounts, said Cenovus CEO Alex Pourbaix.

“In one fell swoop, this deal will almost completely remove our exposure to (West Texas Intermediate/Western Canada Select) differentials,” Pourbaix told analysts on Sunday, referring to the discounts.

Pourbaix said the deal did not come in response to the risk that oil pipelines will be more difficult to build if Democrat presidential nominee Joe Biden wins the White House on Nov. 3.

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After the deal closes, Cenovus shareholders would own 61% of the combined entity, with Husky shareholders controlling the rest. Hong Kong tycoon Li Ka-shing-controlled Hutchison Whampoa would hold a 15.7% stake in the new company.

Hutchison Whampoa is the biggest shareholder of Husky currently, with a 40.2% stake.

Cenovus’ deal for Husky is valued at C$23.6 billion, including debt, the companies said.

It is the biggest Canadian oil and gas deal in nearly four years, based on enterprise value, said Tom Pavic, president of Sayer Energy Advisors, which advises on M&A.

Cenovus said the deal would create Canada's third-largest producer based on total company output behind Canadian Natural Resources Ltd CNQ.TO and Suncor Energy Ltd SU.TO.

Husky shareholders will receive 0.7845 of a Cenovus share and 0.0651 of a Cenovus share purchase warrant in exchange for each Husky common share, according to the statement. Husky’s market value stood at C$3.2 billion as of Friday’s close, which implies Cenovus is offering a 19.5% premium through the all-stock deal.

Cenovus and Husky shares have lost 63% and 70% respectively this year, exceeding the Toronto energy index .SPTTEN loss of 53%.

The combined company is expected to generate annual synergies of C$1.2 billion and will operate as Cenovus Energy Inc with headquarters in Alberta.

Pourbaix will serve as chief executive of the merged company with Jeff Hart, currently Husky’s finance chief, becoming chief financial officer.

Cenovus said the combined company will be able to produce 750,000 barrels of oil equivalent per day (BOE/d).

The transaction has been approved by the boards of both Cenovus and Husky and is expected to close in the first quarter of 2021, the companies said.

RBC Capital Markets and TD Securities are acting as financial advisors to Cenovus, while Goldman Sachs Canada and CIBC Capital Markets are acting as financial advisors to Husky.

($1 = 1.3132 Canadian dollars)

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