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Equity Markets Continue To Fund M&A Activity

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In 2015, the total amount of capital raised in the Canadian oil and natural gas industry was \$17.0 billion, with equity financings accounting for \$10.5 billion, or 61% of the total. Debt financings accounted for the remaining \$6.6 billion. Early in 2015, much of the equity raised was used to reduce debt with few companies tapping the equity markets in conjunction with an announced

acquisition. As the year progressed the equity markets were supportive but selective in underwriting mergers and acquisitions (“M&A”) activity; this trend continued into 2016.

The largest equity financings in 2015 were Cenovus Energy Inc.’s \$1.5 billion bought-deal common share financing in February and Encana Corporation’s \$1.4 billion financing a month later. Each of these majors used the funds to increase their financial flexibility and to fund their respective capital programs.

While some companies used the equity markets to strengthen balance sheets, some less leveraged companies used equity to fund strategic acquisitions. During 2015, there were 11 transactions with an aggregate value of approximately \$5.6 billion wherein the acquirer announced a concurrent financing to partially or fully fund a deal. The total amount of equity raised along with these acquisitions was approximately \$2.9 billion.

Whitecap Resources Inc. was the first company in 2015 to announce a financing with an acquisition when it acquired Beaumont Energy Inc. for approximately \$588 million in the first quarter of the year. Whitecap raised \$110 million through a bought deal equity financing to partially fund the acquisition.

During the second quarter of 2015 there were six M&A transactions supported by the equity markets. The total transaction value for these deals was just over \$2.8 billion, with approximately \$1.9 billion in total equity raised. The equity raised was a combination of bought deal financings, private placements and even an increase in an equity capital commitment as was the case for Black

Swan Energy Ltd. when it acquired Carmel Bay Exploration Ltd. for \$200 million. As well in the quarter, Crescent Point Energy Corp. raised approximately \$660 million in equity in connection with its \$1.8 billion acquisition of Legacy Oil + Gas Inc.

During the third and fourth quarters of 2015, there were two transactions with concurrent financings in each of the quarters. During this period, there was a total of approximately \$2.2 billion in transactions along with nearly \$860 million in capital raised. The largest transaction in the second half of 2015 involved PrairieSky Royalty Ltd. acquiring substantially all of Canadian Natural Resources Limited's royalty interests for \$1.8 billion. In conjunction with this transaction, PrairieSky entered into binding commitments with certain investors for an aggregate \$679.8 million non-brokered private placement subscription receipt financing.

In 2016, Whitecap was once again the first company to announce an acquisition supported by the equity markets when it acquired assets in the Boundary Lake area of British Columbia for approximately \$93 million. Concurrent with the announcement of the transaction, Whitecap entered into a bought deal equity financing for gross proceeds of \$95 million.

Much like in the second quarter of 2015 when Freehold Royalties Ltd. acquired mineral title and royalty assets on certain producing and non-producing lands in Alberta, Manitoba and Saskatchewan from Penn West Petroleum Ltd. for \$318 million and completed \$406 million in aggregate financings around the transaction, Freehold was in acquisition mode in the second quarter of 2016. At the beginning of May, Freehold announced it had entered into an agreement with Husky Energy Inc. to acquire royalty production and lands for

\$165 million. The transaction will be funded by a \$165 million bought deal equity financing (approximately \$190 million if the over-allotment option is exercised) plus a \$20 million private placement to CN Pension Trust Funds.

Following Freehold's announcement that it was purchasing assets from Husky, Whitecap made headlines again when it entered into an agreement to purchase Husky's assets in southwestern Saskatchewan for \$595 million, adding 11,600 boe/d (98% oil) of operated production and facility infrastructure. The acquisition will be funded through a concurrent \$470 million bought deal financing and Whitecap's existing credit facilities.

While the price of crude oil was in a downward trend in the first six weeks of the year, prices have rebounded over the past couple of months. This has increased positive sentiment towards the commodity and may have translated into more investor confidence in supporting M&A activity. As has been the case for some time, investors are selective in the companies they are willing to finance and we see this trend continuing for the remainder of 2016. The companies with strong balance sheets and attractive assets will continue to receive support while less attractive companies may need to sell assets to increase financial flexibility.

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