Daily Oil Bulletin

Total M&A Value Increased 78 Per Cent In 2017

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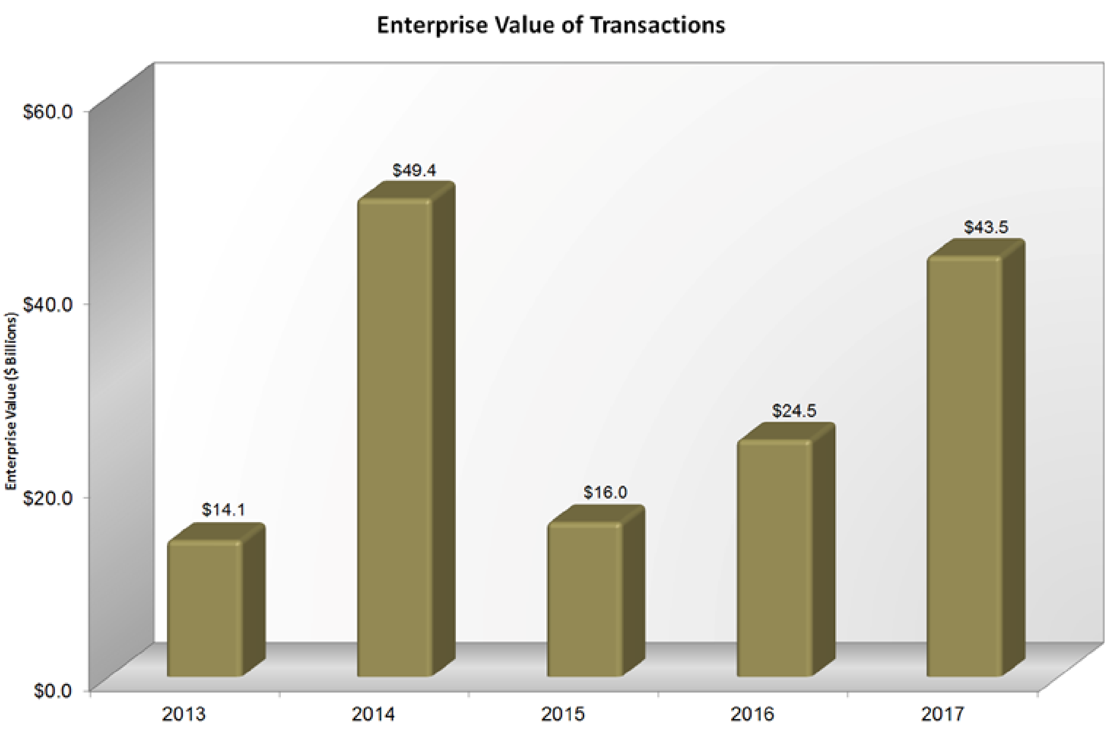
By Ben Rye, GIT, Sayer Energy Advisors

The total enterprise value of merger and acquisition ("M&A") transactions in the Canadian oil and natural gas industry jumped 78 per cent in 2017, surging to $43.5 billion from the $24.5 billion recorded in 2016. This is the highest level of M&A activity since 2014 when $49.4 billion of M&A activity was recorded.



There were five deals valued at over $1.0 billion in 2017, which accounted for approximately 80 per cent of the year's total M&A value. In comparison, there were four deals valued at more than $1.0 billion in 2016. The largest transaction in 2017 was **Cenovus Energy Inc.**'s acquisition of assets from **ConocoPhillips Co.** for $17.7 billion, which accounted for approximately 41 per cent of the year's total M&A value. Cenovus acquired ConocoPhillips' 50 per cent interest in the Foster Creek, Christina Lake and Narrows Lake oil sands assets, which Cenovus jointly owned and operated. With this acquisition, Cenovus gained full control of these oil sands projects. The transaction also included the majority of ConocoPhillips' Deep Basin conventional oil and natural gas assets in Alberta and British Columbia.

Another significant transaction in 2017 was **Canadian Natural Resources Limited**'s acquisition of assets from **Shell Canada Limited** and **Marathon Oil Corporation** for $12.6 billion. Canadian Natural acquired 70 per cent of the Athabasca Oil Sands Project ("AOSP"), including 70 per cent of the Scotford upgrader as well as additional working interests in other producing and non-producing oil sands leases. Canadian Natural also acquired Shell's 60 per cent working interest in the AOSP (comprising the Jackpine Mine and the Muskeg River mine); the Scotford Upgrader and the Quest Carbon Capture and Storage project located north of Edmonton, its 100 per cent working interest in the Peace River/Carmon Creek thermal in situ operations and Shell's 100 per cent interest in the Cliffdale heavy oil field as well as other oil sands leases in the Birchwood, Ells River, Namur, Pierre River and Saleski areas. Canadian Natural and Shell also jointly acquired Marathon's 20 per cent share in the AOSP and related oil sands investments. Shell acquired Marathon's 10 per cent interest in the AOSP for approximately $1.7 billion as part of the acquisition by Canadian Natural of Shell's interest in the AOSP and other oil sands interests. Canadian Natural acquired the other 10 per cent interest Marathon held in the AOSP as well as other oil sands interests.

The $43.1 billion in total enterprise value of large deals (over $5 million in value) in 2017 consisted of $39.2 billion in properties changing hands and $3.9 billion worth of corporate transactions. This is the fifth year in a row that property transactions have outweighed corporate deals. In the past, corporate transactions would generally account for the majority of the total transaction value in any given year. There were only 10 corporate transactions in contrast to 76 property deals in 2017.

Year-over-year, we saw an increase in the total value of oil-weighted transactions as well as an increase in the total value of natural gas-weighted transactions. The value of oil-weighted transactions almost doubled, totaling $36.9 billion in 2017 compared to $19.8 billion in 2016, while the total value of natural gas-weighted transactions rose 48 per cent in 2017, increasing to $6.2 billion from $4.2 billion in 2016. In 2017, oil-weighted transactions accounted for approximately 85 per cent of the total M&A value and natural gas-weighted transactions accounted for the remaining 15 per cent.

In 2016, the split between oil and natural gas was comparable to 2017, as approximately 81 per cent of the transactions were oil weighted and 19 per cent were natural gas weighted. The average transaction size for oil-weighted transactions increased to $684.1 million in 2017 from $267.3 million in 2016, while the average value of natural gas-weighted deals rose to $193.8 million from $97.6 million. The number of oil-weighted transactions decreased to 54 deals in 2017 from 74 deals in 2016, a 27 per cent drop. The number of natural gas transactions also decreased year-over-year, dropping 26 per cent to 32 transactions from 43 the year before.

One of the trends we saw progressing in 2017 was the divestiture of non-core assets where proceeds were put towards debt reduction and capital funding requirements. Such transactions included **Pengrowth Energy Corporation**'s disposition of several assets throughout the year, totaling approximately $733.5 million, with proceeds directed towards the reduction of debt. Cenovus announced the sale of non-core assets in four separate transactions throughout the year for total proceeds of approximately $3.7 billion. Proceeds went towards repaying and retiring its $3.6 billion bridge facility. Cenovus' Pelican Lake, Palliser and Weyburn transactions closed in 2017, while the Suffield transaction closed in early January 2018. **Trilogy Energy Corp.** sold assets in both the Valhalla and Kaybob areas of Alberta in two separate transactions in the second quarter of 2017 for total proceeds of $110.0 million. Proceeds from the sales were used to reduce Trilogy's debt. **Crescent Point Energy Corp.** also sold assets in multiple transactions during the year for $283.2 million, with proceeds directed towards debt reduction.

Another trend we saw in 2017 was a year-over-year decrease in the number of assets available through insolvency processes. In 2017, 16 companies became insolvent compared to 28 insolvencies in 2016. We would expect to see this number come down even further in 2018, potentially settling at the long term average of approximately eight insolvencies per year.

In 2018 to date there has been steady deal flow in the Canadian oil and natural gas M&A marketplace. **Suncor Energy Inc.** played a part in several acquisitions in the first quarter. The most significant transaction to date in 2018 is Suncor's acquisition of a 5 per cent interest in Syncrude from **Mocal Energy Limited** for approximately $925.0 million. Through this acquisition, Suncor's share in the Syncrude joint venture has increased to 58.41 per cent.

In addition to its acquisition of the Sycrude interest, Suncor completed two other significant transactions involving Canadian assets. Suncor and **Teck Resources Limited** each acquired an additional working interest in the Fort Hills project from **Total E&P Canada**. Suncor's share in the project increased to 53.06 per cent and Teck's share increased to 20.89 per cent. Suncor also acquired a 37 per cent equity interest in **Canbriam Energy Inc.** in exchange for all of its northeast British Columbia mineral land holdings and consideration of $52.0 million.

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