ANALYSIS

Will Hostile Takeovers Become More Prevalent?

By Tom Pavic, Sayer Energy Advisors (/author/tom-pavic-sayer-energy-advisors/)
Wednesday, October 31, 2018, 7:28 AM MDT

Print

There have been two recent announcements of unsolicited takeover offers in the Canadian oil and natural gas exploration and production industry, with the most recent being **Husky Energy Inc.** announcing its intention to acquire **MEG Energy Corp.** Prior to that, **Velvet Energy Ltd.** announced a hostile take-over bid to acquire all of the issued and outstanding shares of **Iron Bridge Resources Inc.** Do these offers mark the beginning of a trend towards hostile takeover attempts?

Velvet announced in May its intention to acquire all of the issued and outstanding shares of Iron Bridge for $0.75 in cash per Iron Bridge share. The board of directors of Iron Bridge rejected the offer at the time. Iron Bridge then created a special committee of the board of directors which retained a financial advisor to initiate a process to maximize shareholder value. The process to maximize shareholder value concluded with Velvet and Iron Bridge subsequently coming to terms in September on a higher offer price of $0.845 in cash per Iron Bridge share, which the board of directors of Iron Bridge accepted and recommended its shareholders accept.

In late September, Husky announced its intention to acquire all of the issued and outstanding shares of MEG for either $11.00 in cash or 0.485 of a Husky share subject to a maximum aggregate cash consideration of $1.0 billion and a maximum aggregate number of Husky shares of approximately 107 million. Husky's offer will remain open until at least January 16, 2019, unless otherwise extended, accelerated or withdrawn in accordance with its terms. The board of directors of MEG subsequently rejected the offer. Much like Iron Bridge did earlier, MEG has created a special committee of the board of directors which has retained a financial advisor to initiate a process to maximize shareholder value.

Hostile takeover attempts have been a rarity in the Canadian oil and natural gas exploration and production industry over the last two decades. When they have been attempted, the potential acquirer has been unsuccessful more often than not. In 2000 and early 2001 a number of hostile takeovers were announced, with a "white knight" found in almost every case. **Hunt Oil Company** failed in its hostile takeovers of **Berkley Petroleum Corporation** and **Ulster Petroleums Ltd.**, with **Anadarko Petroleum Corporation** and **Anderson Exploration Ltd.** coming in as "white knights," respectively.

Petrobank Energy and Resources Ltd. attempted to acquire **Ranger Oil Limited** through a hostile takeover but it was thwarted by **Canadian Natural Resources Limited**. In a rarely successful hostile takeover, **Southward Energy Ltd.** acquired **Benson Petroleum Ltd.** after first putting in an unsolicited offer of $2.65 per Benson share. Southward succeeded only after subsequently raising its initial offer to $3.05 per share.

In 2006, **Petro-Canada** attempted to acquire **Canada Southern Petroleum Ltd.** with a US$7.50 offer per share. **Canadian Oil Sands Trust** subsequently submitted a higher offer of US$9.75 offer per share and Canada Southern's board of directors accepted the superior offer from Canadian Oil Sands and recommended its shareholders accept.

Ironically, in late 2015, Canadian Oil Sands was the recipient of a hostile takeover offer from **Suncor Energy Inc.** Suncor offered 0.25 of a Suncor share for each Canadian Oil Sands share. Canadian Oil Sands rejected the offer and recommended its shareholders not accept the offer. In January 2016, Suncor increased its offer to 0.28 of a Suncor share which the board of directors of Canadian Oil Sands accepted and recommended that its shareholders accept.

The lack of success that companies have had in pursuing hostile takeovers has likely prevented a number of buyers from pursuing this form of acquisition strategy. As well, the abundant number of oil and natural gas companies and properties publicly for sale over the last few years would have deterred companies from pursuing a hostile takeover. There has been a dearth of product available publicly so far in 2018, possibly sparking the return of the hostile bid.

Other factors that may have led to the reappearance of hostile takeovers is the recent volatility in commodity prices and the lack of capital available to the Canadian oil and natural gas exploration and production industry. Head winds facing the industry such as persistently low natural gas prices, widening differentials for Canadian oil and the lack of capital flowing into the industry, are all factors that may fuel more hostile takeover attempts in the near future.

Sections: M&A (/mergers-and-acquisitions)

Categories: Analysis (/category/analysis/) / Corporate Mergers (/category/corporate-mergers/)