ANALYSIS

M&A Value In First Half Of 2019 Down 29 Per Cent

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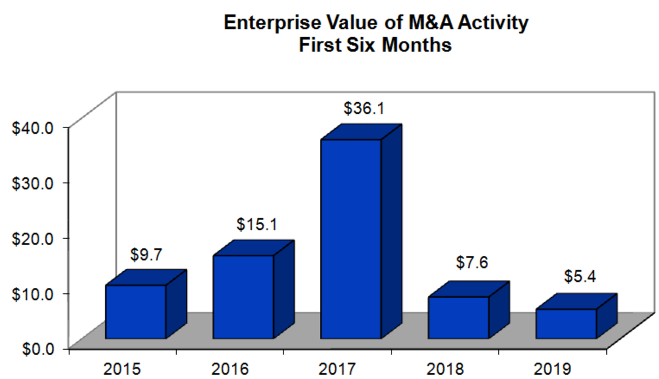
Wednesday, August 28, 2019, 6:44 AM MDT

Print

The total enterprise value of merger and acquisition ("M&A") activity in the Canadian oil and natural gas industry in the first half of 2019 was approximately $5.4 billion, down 29 per cent from the $7.6 billion recorded in the first six months of 2018. This is the lowest first-half total M&A value in the Canadian oil and natural gas industry since 2013 when only $4.3 billion in total M&A value was recorded.



The largest transaction in the first half of 2019 was **Canadian Natural Resources Limited**'s acquisition of assets from **Devon Canada Corporation** for approximately $3.8 billion. This single transaction accounted for 70 per cent of the total M&A value in the first six months of 2019. The transaction involved the acquisition of substantially all of the assets of Devon Canada. Devon Canada's assets consisted of 100 per cent operated thermal in situ oil production (108,200 bbls/d of production capability) and 95 per cent operated conventional primary heavy crude oil production (20,100 bbls/d production capability), both adjacent to existing Canadian Natural assets. In the first quarter of 2014, Canadian Natural purchased Devon Canada's conventional assets, excluding its Horn River, B.C. and heavy oil properties for approximately $3.1 billion.

The second-largest transaction in the first half of 2019 was **Pacific Oil and Gas Ltd.**'s acquisition of all the issued and outstanding shares of **Canbriam Energy Inc.** The purchase price was not publicly disclosed by either Pacific or Canbriam; however, **Suncor Energy Inc.,** which held an equity interest in Canbriam, stated in its second quarter 2019 results that it *"sold its 37 per cent interest in Canbriam for total proceeds and an equivalent gain of $151 million ($139 million after-tax), which the company had acquired in the first quarter of 2018."* Based on Suncor's disclosure, total proceeds to the shareholders of Canbriam was just over $400 million prior to incorporating the debt assumed by Pacific as part of the transaction. Canbriam was a private company which was focused on liquids-rich natural gas development. Its main assets are located in the Altares and Kobes Montney regions of northeast British Columbia with production of approximately 200 mmcf/d, including 6,000 bbls/d of associated natural gas liquids.

The only other transaction in the first half of 2019 which was over $100 million in value was **Pieridae Energy Limited**'s pending acquisition of assets from **Shell Canada Energy** for approximately $190.0 million. The assets being acquired are located in the Alberta Foothills and are proximal to Pieridae's existing operations. As part of the acquisition, Pieridae will also acquire three deep-cut, sour gas processing plants in the

Caroline, Jumping Pound and Waterton areas of Alberta with combined capacity of approximately 750 mmcf/d (currently operating with 420 mmcf/d of spare capacity), a 14 per cent working interest in the Shantz sulphur forming plant and approximately 1,700 kilometres of pipelines. Pieridae intends to finance the acquisition through a combination of a $3.0 million common share offering, $10.0 million convertible debenture offering, $38.0 million subscription receipt offering, US$153.0 million term debt offering and the issuance of $15.0 million worth of Pieridae shares to Shell. Pieridae intends to use the proceeds of the term debt offering to partially fund the acquisition and the repayment of its current outstanding debt to **Alberta Investment Management Corporation** and for working capital purposes. The annual interest rate on the term debt is expected to be 13.3 per cent from the date of issue. According to Pieridae this proposed acquisition will be a major step forward in the development of its Goldboro LNG project in Nova Scotia.

Of the $5.2 billion in large transactions (valued at over $5.0 million) in the first six months of 2019, $4.2 billion were property deals while approximately $1.0 billion were corporate transactions. Of the 16 large transactions during the first half of this year, 14 were property deals and the remaining two were corporate. This compares to the first half of 2018, when the split between large corporate and property transactions was 10 corporate deals totalling $4.3 billion in enterprise value and 34 property deals with an aggregate value of $3.1 billion.

During the first half of 2019, 10 large oil-weighted transactions accounted for $4.0 billion in aggregate value and six large natural gas-weighted transactions made up the remaining $1.2 billion. This is down significantly from 2018 when 30 of the 44 large transactions in the first six months were oil-weighted, with a total enterprise value of approximately $6.3 billion and the remaining 14 deals were weighted towards natural gas, with a total enterprise value of $1.1 billion.

Early in the third quarter, **Karve Energy Inc.** announced the acquisition of **High Ground Energy Inc.** for total consideration of $41.3 million, consisting of the issuance of 3.2 million shares of Karve valued at $2.75 per share and the assumption of $32.5 million in debt. High Ground's assets are adjacent to Karve's interests in the Monitor area of Alberta and were producing approximately 2,000 boe per day (52 per cent oil).

Another notable transaction that has been announced in the third quarter is **Surge Energy Inc.** selling a 1.7 per cent gross overriding royalty ("GORR") on the total revenue from its southwest Saskatchewan, southeast Alberta and north-central Alberta assets to **Freehold Royalties Ltd.** for $29.1 million. As part of the transaction, Surge has a drilling commitment that needs to be fulfilled by April 30, 2022. In the event that Surge does not fulfill the drilling commitment, the GORR shall increase from 1.7 per cent to 2.7 per cent.

For the remainder of 2019 we predict capital will continue to be scarce for many oil and natural gas companies and because of this they will look to the M&A market for capital either through asset sales, manufactured GORR sales or through the outright sale of the shares of the company. Thus, the trend of share-for-share transactions, manufactured GORR sales as well as companies selling their non-core holdings is anticipated to continue for the remainder of the year.

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