

Total Oil & Natural Gas Financings Up Slightly In 2019

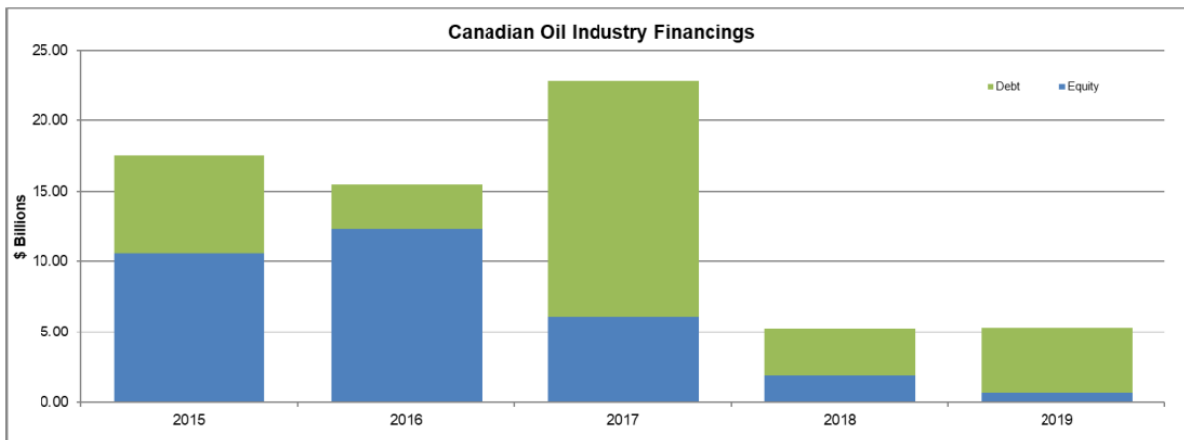
By [Tom Pavic, Sayer Energy Advisors \(/author/tom-pavic-sayer-energy-advisors/\)](#).

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The total amount of capital raised in the Canadian oil and natural gas industry in 2019 slightly increased to \$5.36 billion compared to the previous year's record low of \$5.29 billion. Debt financings of \$4.6 billion accounted for 86 per cent of the capital raised, with equity financings of approximately \$725.0 million taking the balance. In 2018, debt financings accounted for 64 per cent of the total capital raised with the remaining 36 per cent from equity financings.

The largest contributing factor for the slight increase in capital raised in 2019 was the total amount of debt financings year-over-year rising to \$4.6 billion from \$3.4 billion in 2018, a 36 per cent increase.



The debt category described herein is comprised of straight and convertible debt. There were 35 debt financings in 2019, down 24 per cent from the 46 in 2018. The majority of the debt issues in 2019 were straight debt, accounting for 98 per cent of the total debt issued. The total amount of straight debt issues was \$4.5 billion, up 34 per cent from the \$3.4 billion calculated in 2018. The total amount of convertible debt issued increased year-over-year to \$85.1 million from \$13.1 million in 2018, a 551 per cent increase.

In 2019, all but one of the top ten debt issues were straight debt, whereas all of the top ten issues in 2018 and 2017 were straight debt.

CNOOC Limited completed two debt issuances in September for total proceeds of approximately \$2.0 billion, which accounted for 43 per cent of the total debt raised throughout the year. CNOOC issued \$1.3 billion in 2.875 per cent guaranteed notes due 2029 and \$662.2 million in 3.3 per cent guaranteed notes due 2049. The \$1.3 billion debt financing was the largest debt financing in 2019. Proceeds from the offerings were used toward general corporate purposes.

Husky Energy Inc. had the second largest debt offering in 2019, raising \$999.5 million of debt in March. The senior unsecured notes have an annual interest rate of 4.4 per cent and will mature in 10 years. **Suncor Energy Inc.** raised the third largest amount of debt at \$750.0 million of senior unsecured 10-year term notes with a coupon rate of 3.1 per cent.

Surge Energy Inc.'s \$30.0 million financing in April was the largest convertible debt financing in 2019. Surge's five-year convertible unsecured subordinated debenture had a coupon rate of 6.75 per cent and a conversion price of \$2.25 per Surge common share. Proceeds from this offering were used to pay down a portion of the outstanding indebtedness under Surge's revolving credit facility.

The total amount of equity raised in 2019 was approximately \$725.0 million, down 62 per cent from the \$1.9 billion in equity raised in 2018. The total number of equity issues dropped to 117 in 2019 from 154, a 24 per cent decrease. The average size of equity financings in 2019 decreased to \$6.2 million from \$12.3 million in 2018.

The largest equity financing in 2019 was **Topaz Energy Corp.**'s \$209.0 million common share financing in November. In the fourth quarter of 2019, **Tourmaline Oil Corp.** formed Topaz, a private royalty and infrastructure company. Topaz acquired interests in certain revenue generating assets from Tourmaline, which included a royalty interest on Tourmaline lands, a non-operated interest in two of Tourmaline's existing 19 natural gas processing plants, and a contracted interest in a portion of Tourmaline's current third-party revenue. The proceeds from the financing were used to partially finance the acquisition.

The second-largest equity offering in 2019 was **Pipestone Oil Corp.**'s \$85.0 million equity commitment by **Canadian Non-Operated Resources LP** ("CNOR") in January. The CNOR investment was in conjunction with the business combination between Pipestone and **Blackbird Energy Inc.**, resulting in the newly formed entity, **Pipestone Energy Corp.** In addition to the CNOR investment in January, Pipestone Oil also completed a \$168.5 term loan with an interest rate of 9.75 per cent and Blackbird completed a \$26.0 million common share equity financing in conjunction with the business combination.

Included in the equity category is the \$84.3 million in flow-through equity raised during 2019, a 28 per cent decrease from the \$116.8 million in flow-through raised in 2018. In 2019 there were six flow-through equity issuances compared to 17 in 2018, a 65 per cent drop.

There were no initial public offerings completed by exploration and production companies in the Canadian oil and natural gas industry in 2019 compared to one in 2018, which was completed by **Permex Petroleum Corporation** for approximately \$4.0 million.

As we have been forecasting over the last number of years, capital markets are expected to remain restricted and selective by primarily supporting larger, stronger oil-weighted public entities in 2020. With many publicly-traded oil and natural gas companies trading at extremely low valuations and metrics, we believe that we will continue to see debt financings outweigh equity financings in the near future.

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