

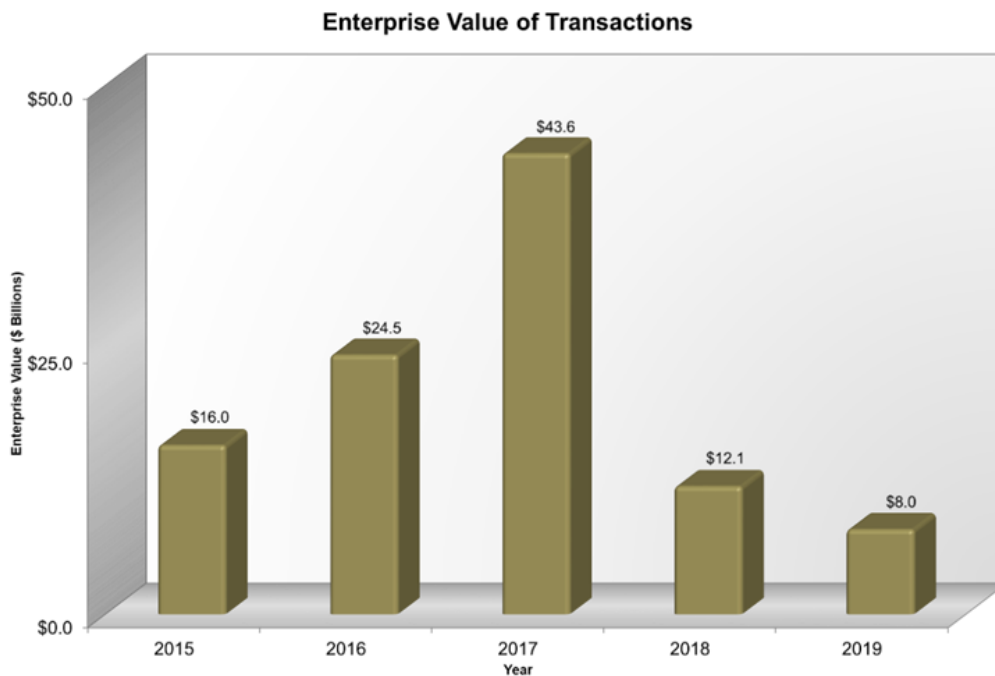
M&A Value Falls To Lowest Level Since 2003

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The total enterprise value of merger and acquisition (“M&A”) transactions in the Canadian oil and natural gas industry dropped 34 per cent, falling to approximately \$8.0 billion in 2019 from the \$12.1 billion recorded in the previous year. This represents the lowest total M&A value recorded since 2003 when a total of \$9.3 billion of activity occurred.



As was the case in 2018, there were only two deals valued at over \$1.0 billion in 2019, which accounted for 59 per cent of the total M&A value. The largest transaction in 2019 was **Canadian Natural Resources Limited**'s acquisition of **Devon Canada Corporation**'s assets for approximately \$3.8 billion. The transaction involved the acquisition of substantially all of the assets of Devon Canada. Devon's assets consisted of a 100 per cent interest in thermal in-situ production (108,200 bbl/d of production capability) and a 95 per cent interest in conventional primary heavy crude oil production (20,100 bbl/d production capability), both adjacent to existing

Canadian Natural assets. In the first quarter of 2014, Canadian Natural purchased Devon's Canadian conventional assets, excluding its Horn River, B.C. and heavy oil properties for approximately \$3.1 billion.

The second-largest transaction in 2019 was **Cona Resources Ltd.**'s acquisition of **Pengrowth Energy Corporation** for just over \$1.0 billion. Pengrowth's main producing properties were located in the Lindbergh area of Alberta and in the Groundbirch area of British Columbia. Pursuant to the transaction, Cona has acquired all of the outstanding Pengrowth common shares in exchange for cash consideration of \$0.05 per share, along with a right to each Pengrowth shareholder's pro-rata portion of any proceeds with respect to an ongoing litigation matter (the "GVR Litigation") with Grand Valley Resources Corp. as a dividend in kind. As part of the transaction, the GVR Litigation and any proceeds with respect to the GVR Litigation, less applicable costs, will be assigned to a litigation trustee to be held in trust for former shareholders of Pengrowth. The acquisition was funded with approximately \$585 million in equity from **Waterous Energy Fund** and debt under an expanded credit facility from a consortium of Canadian banks. With the Pengrowth acquisition, Cona has become the largest privately-owned heavy oil producer in North America, with production of 35,000 boe/d.

Another significant transaction which occurred in 2019 was **Topaz Energy Corp.**'s acquisition of assets from **Tourmaline Oil Corp.** for \$785.5 million. Topaz, a private royalty and infrastructure company which was formed by Tourmaline, 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, for cash consideration of \$194.5 million and 59,100,000 Topaz common shares. The cash portion was funded by a private placement to investors of 20,900,000 common shares at \$10.00/share. Topaz is 74 per cent owned by Tourmaline.

Unlike in 2018 where corporate transactions made up 64 per cent of the total M&A value, in 2019 property transactions dominated making up 73 per cent or \$5.6 billion of the \$7.7 billion in total M&A value of large deals (over \$5 million in value). Corporate deals contributed the remaining \$2.1 billion in total enterprise value. Property transactions have dominated Canadian M&A activity in four of the last five years.

In 2019 there were a number of factors which led to the significant drop in M&A value year-over-year but the largest single underlying factor was the lack of investment capital available to the industry. The total value of financings (both debt and equity) in both 2019 and 2018 was \$5.3 billion, which is significantly lower than 2017, when \$22.8 billion was raised. This lack of investment capital to the industry has been precipitated by continuing production constraints in Alberta, the ongoing pipeline debate and a continued focus on environmental and liability issues.

It has been a relatively slow start for M&A activity to date in 2020, as there have been only six large transactions (over \$5 million in size) announced to date. Total M&A value to this point in 2020 is just over \$150.0 million with Tourmaline being the most active so far with the acquisitions of both **Chinook Energy Inc.** and **Polar Star Canadian Oil & Gas Inc.**

With the recent free-fall in oil prices coupled with coronavirus outbreak we predict that M&A activity will be very slow in the near term as the Canadian oil and natural gas industry tries to figure out what the new “normal” is going to be. Once we get settled into this new “normal” we may start to see a pick-up in M&A activity.

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