

M&A Value Hits Record Low In First Half Of 2020

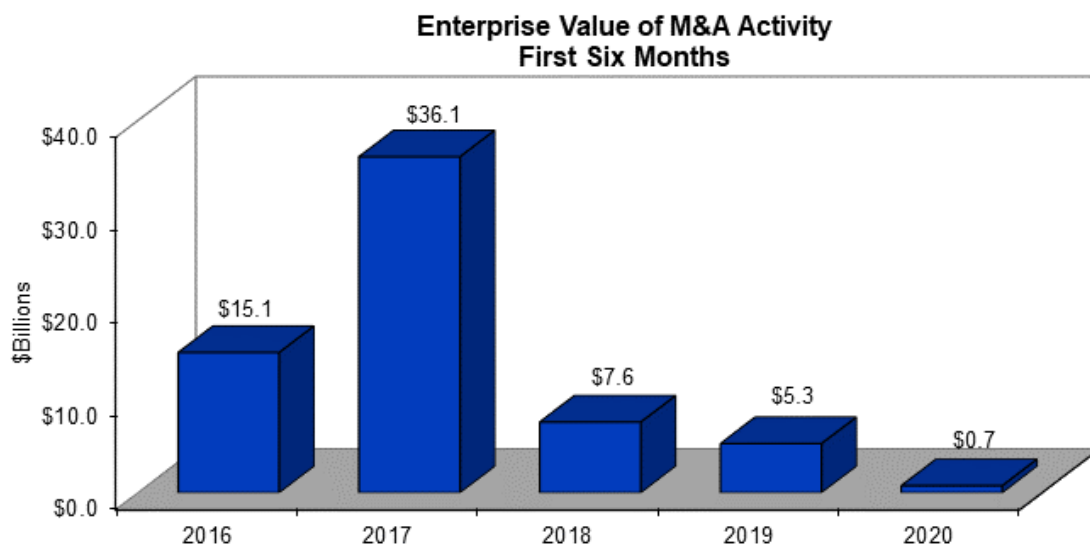
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In the first half of 2020, the total enterprise value of merger and acquisition (“M&A”) activity in the Canadian oil and natural gas industry plummeted 86 per cent to \$748.7 million from \$5.3 billion recorded in the first half of 2019. This is the lowest M&A value on record, for the first six month time period, since Sayer began tracking M&A statistics over 30 years ago.



There were not any deals in excess of \$1.0 billion in size in the first six months of 2020. The largest deal in the first half of this year was **Spartan Delta Corp.**’s acquisition of all of the oil and natural gas interests of **Bellatrix Exploration Ltd.** for \$108.8 million. This transaction arose through Bellatrix’s restructuring proceedings under the *Companies’ Creditors Arrangement Act* (Canada). Bellatrix’s main producing properties were located in the Alder Flats, Baptiste, Brazeau, Ferrier and Willesden Green areas of Alberta. Spartan Delta financed a portion of the acquisition through both a subscription receipt and common share offering for total proceeds of \$64.0 million.

The second-largest deal in the first half of 2020 was **International Petroleum Corporation**’s (“IPC”) acquisition of **Granite Oil Corp.** for \$98.5 million. Granite’s main producing property was located in the Ferguson area of Alberta. Granite’s oil and natural gas interests were

southwest of IPC's existing operations in the Suffield area of Alberta and complement IPC's current southeastern Alberta operations. IPC identified a number of drill ready opportunities on the Granite lands that it believes could add further near-term production.

Another significant transaction in the first half of 2020 was **Longshore Resources Ltd.**'s acquisition of all of the issued and outstanding shares of **Primavera Resources Inc., Rifle Shot Oil Corp.** and **Steelhead Petroleum Ltd.** With this acquisition, Longshore's production increased to over 14,000 boe/d (75 per cent oil). All four companies were backed by **ARC Financial Corp.** and ARC will continue to be the majority shareholder in Longshore.

Of the \$646.0 million in large transactions (valued at over \$5.0 million) in the first six months of 2020, \$245.3 million were property deals while \$400.7 million were corporate transactions. In total there were 16 large transaction (over \$5 million) with an average deal size of \$40.4 million in the first half of 2020, compared to 15 large transaction with an average deal size of \$339.4 million during the same time period in 2019. There were 11 corporate deals and the remaining five were property. This compares to the first half of 2019, when the split between large corporate and property transactions was two corporate deals totaling \$985.1 million in enterprise value and 13 property deals with an aggregate value of \$4.1 billion.

During the first half of 2020, 12 large oil-weighted transactions accounted for \$449.5 million in aggregate value and four large natural gas-weighted transactions made up the remaining \$196.6 million. This compares to 2019, when nine large transactions in the first six months were oil-weighted, with total enterprise value of approximately \$3.9 billion and the remaining six deals were weighted towards natural gas, with total enterprise value of \$1.2 billion.

With M&A activity hampered in large part in the first half of 2020 by the COVID-19 pandemic we have seen M&A activity pick up recently, with oil prices having stabilized in and around the \$40 WTI range, as evidenced by **Cenovus Energy Inc.** announcing its intention to acquire all of the issued and outstanding shares of **Husky Energy Inc.** for \$10.2 billion. The combined company will be the third largest Canadian oil and natural gas producer, with total production of approximately 750,000 boe/d. It will be the second largest Canadian-based refiner and upgrader, with total North American upgrading and refining capacity of approximately 660,000 bbls/d, which includes approximately 350,000 bbls/d of heavy oil conversion capacity. The company will have access to about 265,000 bbls/d of current takeaway capacity out of Alberta on existing major pipelines, as well as about 305,000 bbls/d of committed capacity on planned pipelines. In addition, it will have 16 million barrels of crude oil storage capacity as well as strategic crude-by-rail assets that provide takeaway optionality.

Other significant transactions which have been announced since Canada Day were **Canadian Natural Resources Limited**'s acquisition of all of the issued and outstanding shares of **Painted Pony Energy Ltd.** for approximately \$638.8 million, **Kelt Exploration Ltd.** selling

its interests in the Inga, Fireweed and Stoddart areas of British Columbia to **ConocoPhillips** for \$551.0 million, and **Whitecap Resources Inc.** announcing its intention to acquire **NAL Resources Limited** for \$213.9 million.

With M&A activity reaching a record low in the first half of 2020, the number of deals announced so far in the second half of 2020, as highlighted above, has led to a respectable year, with total M&A value already reaching its highest level since 2017. With the ability to raise capital non-existent for many Canadian oil and natural gas companies, we most likely will witness more activity on the M&A front prior to the end of 2020.

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