ANALYSIS

Sayer's Outlook For 2021 M&A Activity

By Tom Pavic, Sayer Energy Advisors (/author/tom-pavic-sayer-energy-advisors/)
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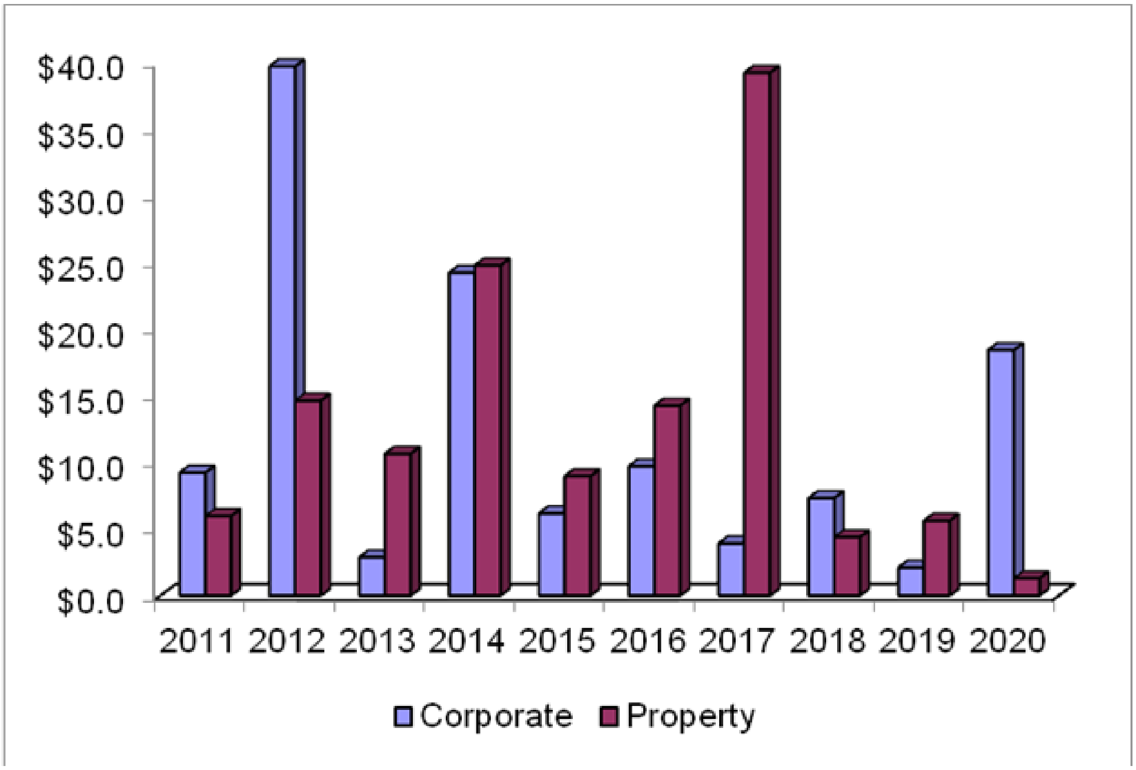
Every January, Sayer Energy Advisors publishes its forecast for mergers and acquisitions ("M&A") activity in the Canadian upstream oil and natural gas industry for the upcoming year. Our outlook begins with a review of our predictions from January 2020 and point to where we think things will go this year. Even though a majority of our predictions last year did not come to fruition, in large part due to the onset of the COVID-19 pandemic, some of the things we forecasted did come to realization.

In 2019 the total value of M&A activity in the Canadian oilpatch was quite low by historical standards, totaling only approximately $8.0 billion. In January 2020, we predicted that 2020 would see a modest recovery in M&A activity, with the total value of all deals increasing from 2019's depressed levels. We predicted that corporate deals would account for a high percentage of the total transaction value.

The total value in 2020 came in at $20.0 billion with $18.4 billion of the value from corporate transactions. There was one deal in 2020 valued at over a billion dollars, with **Cenovus Energy Inc.** acquiring **Husky Energy Inc.** for $15.0 billion, which made up 75% of the total M&A value for the year. Ironically enough, this was the largest transaction in the Canadian oil and natural gas industry since Cenovus purchased certain Canadian assets from **ConocoPhillips Co.** in 2017 for $17.7 billion.

Total Yearly Value of M&A Activity (2011-2020)

($billions)



A constant theme in previous forecasts has been uncertainty and frothiness in the Canadian oil and natural gas industry leading to restricted M&A activity, which Sayer expects to continue throughout 2021. This unease has been caused by a number of factors including: the ongoing COVID-19 pandemic and the effect it will have on commodity prices especially for oil as well as its effect on the balance sheets of many oil and natural gas producers, swelling environmental issues, and continued political issues both in Canada and in the United States.

We predict M&A activity in 2021 to be slightly lower than what we saw in 2020, we forecast in the +/- $15 billion range. We expect to see corporate deals account for a high percentage of the transaction value as it did in 2020. We also predict we will continue to see more share for share corporate transactions in 2021 as we saw in 2020 with the aforementioned Cenovus/Husky transaction as well as **Whitecap Resources Inc.**'s acquisition of **NAL Resources Limited** and proposed acquisition of **TORC Oil & Gas Ltd.**

We were correct in not expecting to see many multibillion-dollar natural gas transactions taking place in 2020. There were no natural gas deals valued at over a billion dollars. *Echoing this prediction, we do not expect to see many multibillion-dollar natural gas transactions occurring in 2021.*

We predicted the number of insolvencies in 2020 to be similar to what we saw in 2019. In 2020, there were eight insolvencies, compared to 12 in 2019. This trend began in 2016 when the number of oil and natural gas companies that became insolvent shot from the historical average of approximately eight per year to 28 companies entering into receivership, bankruptcy or formal financial restructuring processes. This trend continued into 2017 with 16 insolvencies recorded and then dropped to six in 2018. *We expect to see a similar number of insolvencies in 2021, as we did last year, in part due to the continuing effects that the COVID-19 pandemic has had on many oil and natural gas companies.*

We predicted that there would be very few, if any, hostile takeover attempts in 2020. We were correct, in that there were only two hostile takeover attempts in 2020 with **Obsidian Energy Ltd.**'s offer for all of the issued and outstanding shares of **Bonterra Energy Corp.** and **Waterous Energy Fund**'s offer to increase its interest in **Osum Oil Sands Corp.** *We predict the same for hostile takeover attempts in 2021.*

We predicted that 2020 would be a slow year for oilsands transactions. Our prediction was blown out of the water with the previously-mentioned Cenovus acquisition of Husky. *We predict that minor oilsands assets may hit the market but we do not expect to see many multibillion-dollar transactions in this sector in 2021.*

Over the last several years there has been an issue with the amount of capital entering into the industry through financings, as well as a lack of investor interest through public markets. We predicted that capital markets would continue to be restrictive and selective by primarily supporting larger, stronger oil-weighted public entities in 2020.

Capital raised in 2020 including equity and debt issues totaled $10.9 billion. This is more than double the $5.4 billion raised in 2019. Of the total $10.9 billion in capital raised in 2020, $10.0 billion consisted of debt financings with the remainder in equity. *Considering the very low interest rate environment we have been in since the onset of the COVID-19 pandemic, we believe we will continue to witness more debt financings versus equity financings occurring in 2021*, as evidenced by **Tourmaline Oil Corp.** announcing earlier this month the issuance of $250.0 million in unsecured notes due in January 2028 bearing interest at a fixed rate of 2.077% per annum.

In our forecast last year, we predicted that we would see the trend of share buy-backs and recapitalization transactions occur in 2020, which were trends we saw emerging in late 2019 and early in 2020. Unfortunately, with the onset of the COVID-19 pandemic we saw both of these trends become virtually non-existent. We believe that share buy-backs will be minimal in 2021 but that we may see a few recapitalization transactions in 2021 similar to the ones announced by **Spartan Delta Corp.** in late 2019 and **Headwater Exploration Inc.** in early 2020.

We are hopeful that the recent increase in oil prices coupled with stable natural gas prices and the roll-out of vaccines to deal with the COVID-19 pandemic will bring back the return of investor interest and possibly some equity into the Canadian upstream oil and natural gas industry. If we do continue to see somewhat stable commodity prices in 2021, we believe that this will be the best scenario for a robust M&A market.

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

Categories: Analysis (/category/analysis/) /

Asset Sales and Acquisitions (/category/asset-sales-and-acquisitions/) /

Corporate Mergers (/category/corporate-mergers/)