

# M&A Value Increases To Highest Level Since 2017

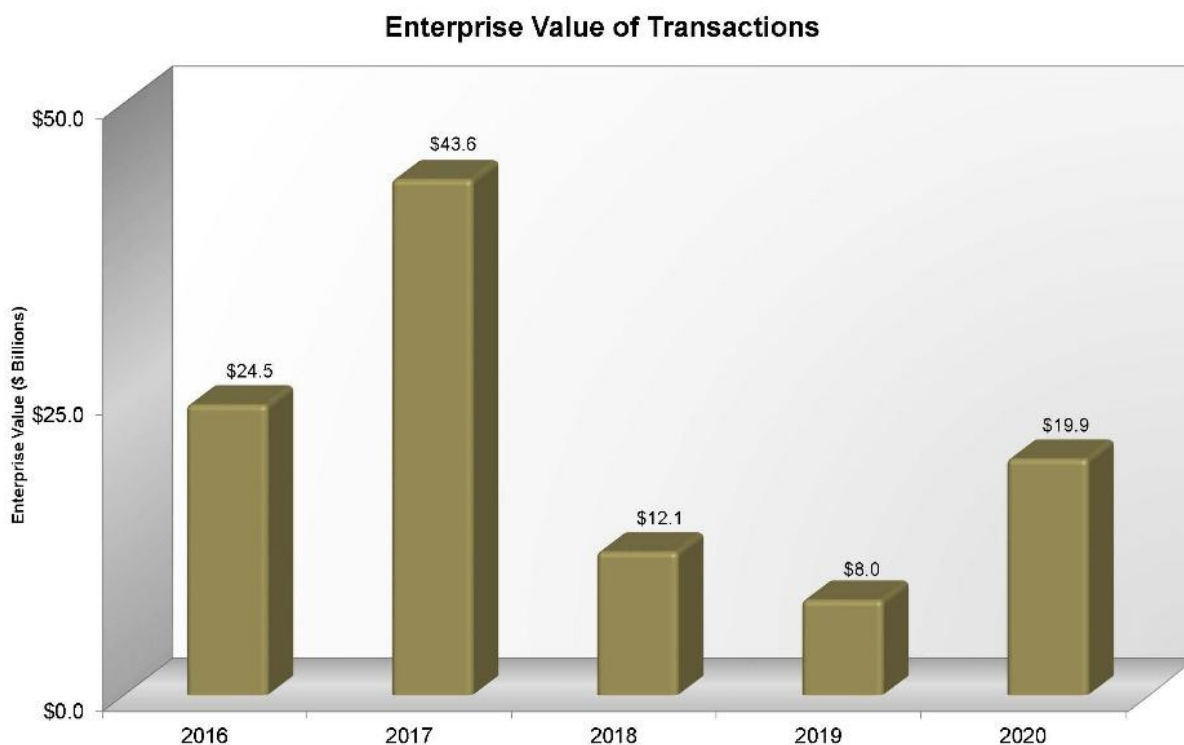
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The total enterprise value of merger and acquisition (“M&A”) transactions in the Canadian oil and natural gas industry more than doubled to approximately \$20.0 billion in 2020 from \$8.0 billion in 2019, a 149 per cent increase.



There was one deal in 2020 valued at over a billion dollars: [Cenovus Energy Inc. \(/company/cenovus-energy-inc/\)](#) acquiring [Husky Energy Inc.](#) for \$15.0 billion, which made up 75 per cent of the total M&A value for the year. This is the largest transaction in the Canadian oil and natural gas industry since Cenovus’s acquisition of assets from [ConocoPhillips Co.](#) in the first quarter of 2017 for \$17.7 billion.

Husky’s main Canadian assets were located in the Lloydminster area of Alberta and Saskatchewan, the Cold Lake, Edson, Grande Prairie and Rainbow Lake areas of Alberta as well as offshore Atlantic Canada off the coast of Newfoundland. Husky also held interests in China and Indonesia as well as refineries in the United States.

With this transaction, Cenovus became the third largest Canadian oil and natural gas producer with approximately 750,000 boe/d of production. Cenovus is now 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.

Cenovus has 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, the company has 16 million bbls of crude oil storage capacity as well as strategic crude-by-rail assets that will provide takeaway optionality.

Through the deal, Cenovus is expected to generate an incremental \$1.2 billion of annual free funds flow, comprised of \$600.0 million in annual corporate and operating synergies and \$600.0 million in annual capital allocation synergies, achievable independent of commodity prices.

The second-largest transaction in 2020 was **Whitecap Resources Inc. (/company/whitecap-resources-inc/)**'s acquisition of **TORC Oil & Gas Ltd.** for \$848.9 million.

TORC's main producing properties were located in the Kaybob and Pembina areas of Alberta, and the Flat Lake, Openshaw, Steelman, Wapella, Weir Hill and Willmar areas of Saskatchewan. The transaction significantly increased Whitecap's scale as TORC's asset base fit directly into Whitecap's current core areas, which increased Whitecap's production to approximately 100,000 boe/d (78 per cent liquids).

There is significant overlap in Whitecap's and TORC's asset bases providing for operational synergies and inventory optimization opportunities. The resulting entity has 67 per cent of its production under waterflood recovery, supporting its base production decline rate of 17 per cent. Prior to announcing this transaction, Whitecap announced and subsequently acquired all of the issued and outstanding shares of **NAL Resources Limited** for approximately \$214.0 million.

Another significant transaction in 2020 was **Canadian Natural Resources Limited (/company/canadian-natural-resources-limited/)**'s acquisition of all of the issued and outstanding shares of **Painted Pony Energy Ltd.** for \$638.8 million.

Painted Pony's main producing properties were Montney interests located in the Beg, Blair, Daiber, Gundy, Kobes, Townsend and West Blair areas of British Columbia. Painted Pony's land and production were located within Canadian Natural's core operating area, providing Canadian Natural with the opportunity to leverage synergies and utilize a significant amount of pre-built infrastructure and transportation capacity which was available.

Corporate transactions dominated the marketplace, making up 93 per cent or \$18.4 billion of the \$19.7 billion in total enterprise value of large deals (over \$5 million in value) in 2020. Property deals made up the remaining \$1.3 billion in total enterprise value. The split between property and corporate transactions is opposite to what occurred in 2019 when property transactions made up 73 per cent of the total M&A value.

The COVID-19 pandemic along with the continued lack of investment capital were the dominating factors that drove the M&A market in 2020. These factors led to significantly more M&A activity in the second half of 2020 as illustrated by the aforementioned Cenovus/Husky, Whitecap/TORC and Canadian Natural/Painted Pony transactions.

The early part of 2021 has continued where 2020 ended with total estimated M&A value of approximately \$7.0 billion. The most significant transaction announced so far in the first quarter of 2021 was **[ARC Resources Ltd. \(/company/arc-resources-ltd/\)](#)** announcing its intentions to acquire **Seven Generations Energy Ltd.** for approximately \$4.9 billion.

Somewhat stable commodity prices coupled with investment capital coming back to the industry, as witnessed by recent equity financings completed by both **[Spartan Delta Corp. \(/company/spartan-delta-corp/\)](#)** for \$124.0 million and **[Tamarack Valley Energy Ltd. \(/company/tamarack-valley-energy-ltd/\)](#)** for \$68.0 million, could lead to more consolidation and thus increased M&A activity for the remainder of 2021.

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