ANALYSIS

Sayer's Outlook For 2022 M&A Activity

By Tom Pavic, Sayer Energy Advisors (/author/tom-pavic-sayer-energy-advisors/)
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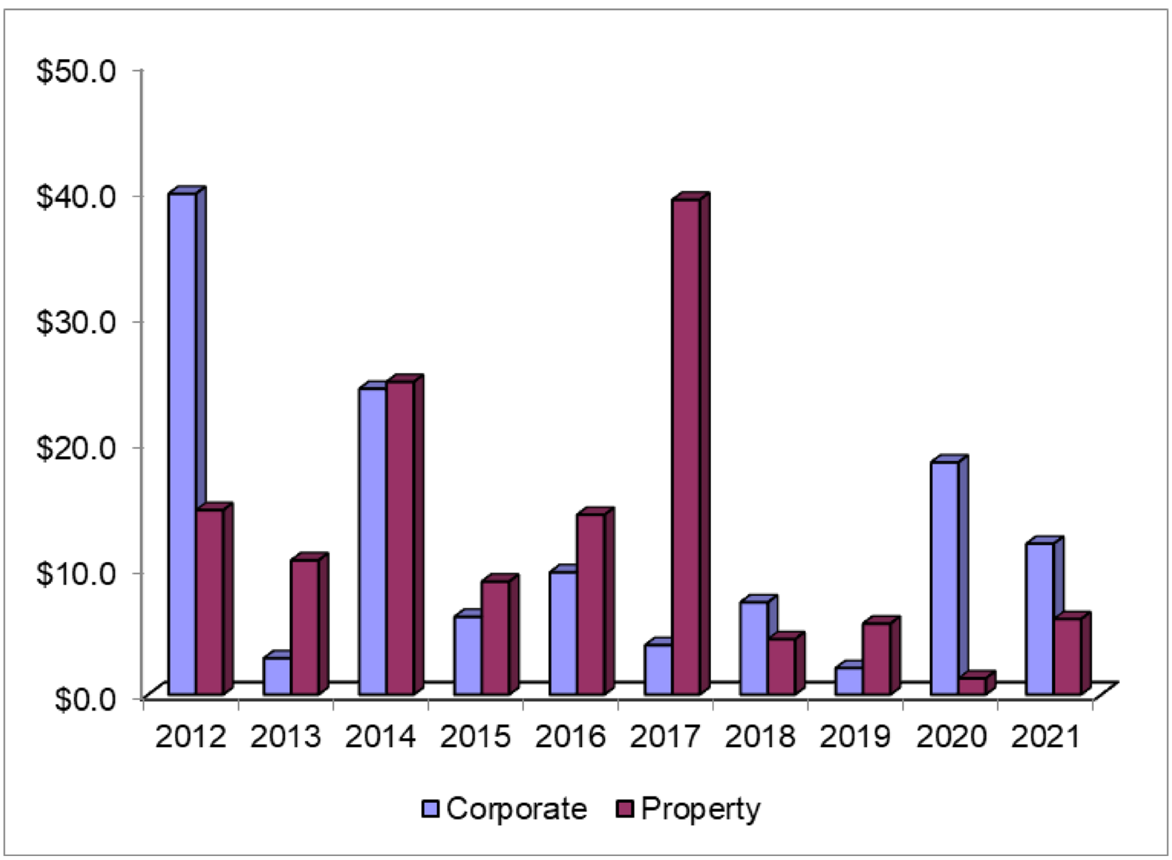
Every January, **Sayer Energy Advisors** publishes its forecast for mergers and acquisitions ("M&A") activity in the Canadian upstream oil and natural gas industry for the upcoming year. Our outlook begins with a review of our predictions from January 2021 and points to where we think things will go this year.

In 2020, the total value of M&A activity in the Canadian oil patch was quite high by historical standards, totaling approximately $19.9 billion. In January 2021, we predicted that M&A activity in 2021 would be slightly lower than what we saw in 2020 and would be in the +/- $15.0 billion range. We also predicted that corporate deals would account for a high percentage of the total transaction value.

Total M&A value in 2021 came in at $18.1 billion with $12.0 billion of the value from corporate transactions. There were three deals in 2021 valued at over a billion dollars: with **ARC Resources Ltd.** acquiring **Seven Generations Energy Ltd.** for $5.1 billion, **Tourmaline Oil Corp.** purchasing **Black Swan Energy Ltd.** for $1.1 billion and **Canadian Natural Resources Limited** taking over **Storm Resources Ltd**. for just over $1.0 billion. These three transactions made up 40 per cent of the total M&A value for the year.

Total Yearly Value of M&A Activity (2012-2021)
($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 still expects to continue throughout 2022. 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, swelling environmental issues and continued political issues both in Canada and internationally.

We predict M&A activity in 2022 to be slightly lower than what we saw in 2021, we are forecasting again in the +/- $15 billion range. We expect to see corporate deals account for a high percentage of the transaction value as it did in 2021. We also predict we will continue to see more share-for-share corporate transactions in 2022 as we saw in 2021 with the aforementioned ARC/Seven Generations transaction.

We were correct in not expecting to see many multi-billion-dollar natural gas transactions taking place in 2021. There were two natural gas deals valued at over a billion dollars with the aforementioned Tourmaline/Black Swan and Canadian Natural/Storm transactions. *Echoing this prediction, we do not expect to see many multi-billion-dollar natural gas transactions occurring in 2022.*

We predicted the number of insolvencies in 2021 to be similar to what we saw in 2020. In 2021, there were eleven insolvencies, compared to eight in 2020. 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 and increased to 12 in 2019. *We expect to see a lower number of insolvencies in 2022, as we did last year, in part due to the significant rebound in oil and natural gas commodity prices we have seen recently.*

We predicted that there would be very few, if any, hostile takeover attempts in 2021. We were correct, in that there were no hostile takeover attempts in 2021. *We predict the same for hostile takeover attempts in 2022.*

We predicted that 2021 would be a slow year for oil sands transactions. Our prediction was correct in that the only significant oil sands transactions in 2021 were **HE Acquisition Corp.**'s purchase of **Japan Canada Oil Sands Limited** and **Strathcona Resources Ltd.**'s planned acquisition of **Cenovus Energy Inc.**'s interests in the Tucker thermal oil sands project for $800.0 million. *We predict again that minor oil sands assets may hit the market but we do not expect to see many multi-billion-dollar transactions in this sector in 2022.*

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 and that we would witness more debt financings versus equity financings in 2021.

Capital raised in 2021 including equity and debt issues totaled $10.8 billion. This is on par with the $10.9 billion raised in 2020. Of the total $10.8 billion in capital raised in 2021, $8.6 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 2022.*

In our forecast last year, we predicted that share buy-backs will be minimal in 2021. We were blown out of the water on this prediction as commodity prices continued to appreciate throughout 2021 leading to significant cash flow for oil and natural gas producers and thus with this excess cash flow more and more companies were pursuing normal course issuer bids. We believe this trend of share buy-backs as well as increased dividends to shareholders will continue in 2022.

We are hopeful that the current strong commodity prices as well as an increasing number of oil and natural gas producers focusing on environmental, social and governance initiatives 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 these strong commodity prices hold in 2022, we believe that this will be the best scenario for a robust M&A market.

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