

Sayer's Outlook For 2024 M&A Activity

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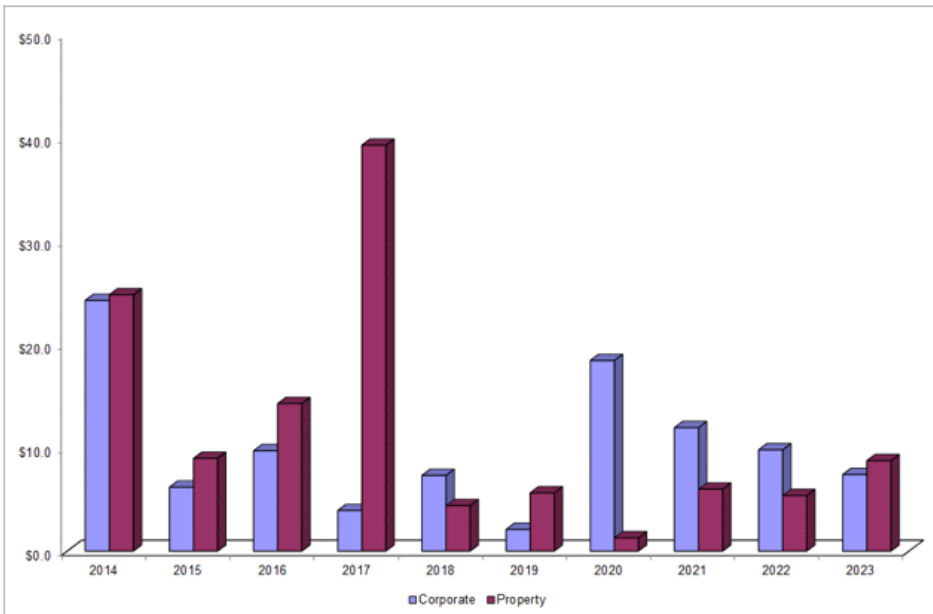
Sayer Energy Advisors publishes its forecast for mergers and acquisitions (“M&A”) activity in the Canadian upstream oil and natural gas industry every January for the upcoming year. We begin our outlook by reviewing our predictions from the previous year. Following our review, we will point to where we think things will go this year.

In 2023, the total value of M&A activity in the Canadian oilpatch was approximately \$16.4 billion. This is up from the \$15.4 billion in 2022. In January 2023, we predicted that M&A activity in 2023 would be similar to what we saw in 2022 and forecasted that it 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. Approximately 45 per cent, or \$7.4 billion of the total value in 2023 came from corporate transactions.

There were five deals in 2023 valued at over \$1 billion, which made up \$11.7 billion or over 70 per cent of the total transaction value for the year. The largest of the five transactions was **[ConocoPhillips \(/company/conocophillips/\)](/company/conocophillips/)** purchasing the assets of **[TotalEnergies EP Canada Ltd. \(/company/totalenergies-ep-canada-ltd/\)](/company/totalenergies-ep-canada-ltd/)** for \$4.4 billion, followed by **[Crescent Point Energy Corp. \(/company/crescent-point-energy-corp/\)](/company/crescent-point-energy-corp/)** acquiring **[Hammerhead Energy \(/company/hammerhead-energy/\)](/company/hammerhead-energy/)**

Inc. for approximately \$2.7 billion. There was some repetition of parties involved in the top five transactions, with Crescent Point also acquiring assets from **Spartan Delta Corp.** for \$1.7 billion and TotalEnergies EP Canada, which was acquired by **Suncor Energy Inc.** (</company/suncor-energy-inc/>) for just under \$1.5 billion. The fifth deal over \$1 billion in 2023 was **Tourmaline Oil Corp.** (</company/tourmaline-oil-corp/>) taking over **Bonavista Energy Corporation** for approximately \$1.5 billion.

Total Yearly Value of M&A Activity (2014-2023)
(\$billions)



A persistent 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 2024. This unease has been caused by a number of factors including: the constant talk of a global recession and the effect it will have on commodity prices, especially oil, environmental issues, and continued political issues both in Canada and internationally.

We predict M&A activity in 2024 to be lower than what we saw in 2023, somewhere in the +/- \$12 billion range. We expect to see corporate deals account for a high percentage of the transaction value as it did in 2021 and 2022.

Our prediction of not expecting to see many multibillion-dollar natural gas transactions taking place in 2023 was correct. There were two natural gas deals valued at over \$1 billion with the aforementioned acquisition of Bonavista by Tourmaline and Crescent Point's acquisition of Hammerhead. Last year there were also two multibillion-dollar natural gas transactions including the purchase of **Hammerhead Resources Inc.** by **Decarbonization Plus Acquisition Corporation IV** for approximately \$1.4 billion with the combined entity named **Hammerhead Energy Inc.**

and **Whitecap Resources Inc.**'s acquisition of **XTO Energy Canada Inc.** for \$1.9 billion. *We expect the same to hold true this year. We do not expect to see many multibillion-dollar natural gas transactions occurring in 2024.*

We predicted the number of insolvencies in 2023 to be consistent with what we saw in 2022, and lower than what was seen in 2021. In 2023, there were five insolvencies, compared to four in 2022 and 11 in 2021. This trend began in 2016 when the number of oil and natural gas companies that became insolvent shot up 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, then dropped to six in 2018, increased to 12 in 2019 and then fell to eight in 2020. *Echoing our prediction from last year, we expect to see a low number of insolvencies in 2024, in part due to the majority of oil and natural gas companies possessing strong balance sheets.*

We were correct in predicting that there would be very few, if any, hostile takeover attempts in 2023. There were no hostile takeover attempts in 2023. *We predict the same for hostile takeover attempts in 2024.*

We predicted that 2023 would see a few multibillion-dollar oilsands transactions. Our prediction was accurate, in that there were two oilsands transactions valued at over \$1 billion in 2023. The largest of these two deals was the previously-mentioned ConocoPhillips purchase of assets from TotalEnergies EP Canada for \$4.4 billion, which included a 50 per cent interest in the Surmont Oil Sands Project. In the fourth quarter of 2023, **Suncor Energy Inc.** acquired TotalEnergies EP Canada for \$1.5 billion. TotalEnergies EP Canada's main producing property was its 31.23 per cent working interest in the Fort Hills Oil Sands Project operated by Suncor. On April 26, 2023, Suncor initially announced it had entered into an agreement with TotalEnergies for the sale of all of the shares of TotalEnergies EP Canada for \$5.5 billion in cash plus a contingent payment of up to \$600.0 million. The transaction with Suncor was conditional upon ConocoPhillips waiving its right of first refusal with respect to the Surmont Oil Sands Project. On May 26, 2023, ConocoPhillips exercised its preemption right to acquire the interest from TotalEnergies for \$4.0 billion and contingent payments of up to \$440.0 million. Suncor financed the acquisition of TotalEnergies EP Canada through an offering of \$1.5 billion in aggregate principal amount of senior unsecured notes. *We predict that we may see a few multibillion-dollar transactions in this sector in 2024, similar to what we witnessed in 2022 and 2023.*

Capital raised in 2023 including equity and debt issues totalled approximately \$8.8 billion. This is up 217 per cent from the \$2.8 billion raised in 2022. Of the total \$8.8 billion in capital raised in 2023, \$7.2 billion consisted of debt financings with the

remainder in equity. *With higher interest rates at present, we don't believe we will see as much debt financings as we did in 2023.*

In our forecast last year, we predicted that share buy-backs and increased dividends would continue to be a common occurrence in 2023, as was the case in 2022. This trend was a very common theme in the Canadian oil and natural gas industry in 2023. We believe this trend of share buy-backs as well as increased dividends to shareholders will continue in 2024.

We continue to have a positive view that strong oil prices will bring back the return of investor interest along with some possible equity into the Canadian upstream oil and natural gas industry. If we do continue to see oil prices hold in 2024 and natural gas prices increase, we believe that this will be the best scenario for a robust M&A market.

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