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CANADIAN BUSINESS

'Troubled children' failures restore stability for rest of Canadian oilpatch

Nov 28, 2016 Dan Healing, The Canadian Press

CALGARY – Mergers and acquisitions experts are predicting fewer Canadian oil and gas companies will go bust over the next year as most of the “troubled children” of the industry have already failed or been sold.

Tom Pavic, vice-president of Calgary-based Sayer Energy Advisors, said 26 Canadian energy companies have entered into a court-monitored receivership or restructuring process so far this year.

That's up from 20 in 2015, when the total matched the number of failures recorded in 2009 during the last oil price-related economic downturn. He said there are typically eight oil and gas company failures each year.

“I think a lot of the troubled children have been dealt with, for lack of a better word,” Pavic said in an interview.

“There will still be more receiverships but I don't believe it will be as much as this year.”

Higher oil and natural gas prices have brought a measure of stability to the sector.

However, confidence continues to be buffeted by changing provincial and national carbon emission policies and uncertainty over international supply and demand.

In a report, Sayer predicted more energy deals over the next year because buyers and sellers are becoming more closely aligned on how much assets are worth after two years of slumping commodity prices.

The report noted that \$17.8 billion in oil and gas deals took place in Canada through the first nine months of 2016, up from \$15 billion in all of 2015, but lagging the \$49 billion in 2014.

Bruce Edgelow, vice-president of strategic initiatives with ATB Financial, said the Alberta lender is seeing signs of stability as it completes the fall reviews of its energy company loans.

"People have kind of settled into the cash flow they're getting," he said.

"They've gotten their costs as low as they can and the market has clearly stabilized ... There's not as much frantic-ness to it."

He said he agrees that the mergers and acquisitions market has improved and predicted that several deals will be announced in December and January as companies make year-end moves to try to impress their shareholders.

Edgelow said rising buyer interest is illustrated by the case of Mosaic Energy, a private Calgary company thrown into receivership in April.

Receiver Ernst & Young reported to Court of Queen's Bench last week that it had received 40 proposals from 32 bidders for three packages of assets in Alberta and B.C.

It recommended that the court accept Calgary-based ARC Resources' (TSX:ARX) bid for certain B.C. properties, without revealing the price.

However, Pavic and Edgelow pointed out that access to investment capital remains tight in the oilpatch with only large, well-managed companies able to borrow money to fund drilling programs.

"A 1,000-barrel-a-day producer is in tough shape these day to find somebody as a new lender," said Edgelow.

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