

‘Stars lining up’ for Canadian oil after blockbuster deals in US

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A pair of blockbuster deals in the US bode well for the future of the Canadian energy sector, according to a Calgary-based energy advisory firm.

It comes after San Ramon-based Chevron this weekend announced it is buying fellow oil giant Hess Corp. for USD\$53 billion in the second blockbuster deal this month — after Exxon Mobil took out Texas-based Pioneer Natural Resources for \$60 billion dollars on October 11.

According to Tom Pavic, president of Sayer Energy Advisors, both deals are a sign of longer-term confidence in the future of fossil fuels, particularly for shale oil. The Hess deal expands Chevron’s footprint in the North Dakota Bakken — which spills into southern Saskatchewan — while Exxon consolidates the Texas Permian shale oil play.

Although Canada has seen an uptick in merger and acquisition activity, some observers feel it’s only a matter of time before major buyers begin looking north as the Trans Mountain pipeline expansion comes on stream and producers benefit from higher commodity prices.

“We’re sort of seeing that here in Canada but not at this scale,” he told *The Western Standard*. “I think it’s positive for the Canadian industry over the short to medium term... things are lining up on this side of the border.”

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Last week, Calgary-based Tourmaline Oil bought Bonavista Energy for CAD\$1.45 billion to consolidate its dominant position in the prolific Duvernay shale fairway along the Alberta Foothills.

Also last week, Calgary-based Peyto Exploration bought the remaining Canadian assets of Spanish oil major Repsol in a deal worth \$636 billion.

In August, Strathcona Resources bought out smaller rival Pipestone Energy for \$756.83 million, to create Canada's fifth-largest oil and gas company with a market capitalization of \$8.6 billion.

Those are on top of ConocoPhillips' \$4 billion purchase of French supermajor TotalEnergies' Surmont thermal oil sands project and Suncor's \$1.47 billion acquisition of Total's stake in the Fort Hill oil sands mine.

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According to Sayer, there have been about \$12.7 billion of oil patch deals thus far in 2023, which is slightly off the \$15.7 billion and \$17.9 billion in each of the past two years after activity picked up following the pandemic.

The difference is that for two years relatively strong commodity prices have allowed Canadian companies to pay down debt and build up war chests. With TMX — literally and figuratively — in the pipe, oil producers will have a half a million barrels per day of running room to resume an upward growth path.

According to a report from Morgan Stanley last week, Canadian oil producers are attractive targets because they trade at substantial discounts to their American peers even though they have higher dividend yields and stronger free cash flow to fund acquisitions.

Alternatively, it's not unusual for Canadian companies to use that spare cash to snap up distressed American companies loaded with debt.

"I think there are going to be more transactions, for sure," Pavic said.

After surpassing the USD\$90 mark last week, North American oil prices were down sharply in morning trading on Monday. Benchmark West Texas Intermediate was off \$2.14 to \$85.94 per barrel in New York, while UK Brent was down \$1.97 to \$90.19.