

# FINANCIAL POST

Tuesday, January 13, 2009

## M&A values in oilpatch expected to remain modest in 2009

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Published: Tuesday, January 13, 2009



M&A values in the oilpatch are expected to remain modest in 2009, but not for lack of activity, which may heat up as the year progresses and companies look for bargains that leave them well positioned for an economic recovery. That's the verdict from Sayer Energy Advisors, a Calgary-based firm, who released their annual mergers and acquisitions outlook on Monday.

"[Our] forecast is for a continuation of the low total value of M&A activity that occurred in 2008, primarily due to lower valuations resulting from significantly lower commodity prices and a shortage of capital," wrote Sayer president Alan W. Tambosso.

In 2008, the total value of M&A activity was \$17.5-billion, the lowest yearly total since 2004 and well below the roughly \$50-billion worth of corporate and asset acquisitions in 2007.

Mr. Tambosso said the lack of capital that plagued the market last year will again result in depressed M&A prices this year, particularly when it comes to cash transactions.

"With oil prices recently hovering around the \$50 to \$60 range, levels last seen in 2004-2005, it is not unrealistic to expect M&A prices to fall to the range of prices realized in that time period," he wrote, forecasting median prices paid for reserves (proved plus probable) to fall in the range of \$12.50 to \$15 per barrel and median prices for production to drop between \$40,000 to \$45,000 barrels of oil per day or lower.

Mr. Tambosso also expects purchasers will increase the discount rates they use to value transactions due to the rising cost of capital. "Higher discounts obviously translate into lower prices paid," he wrote.

Despite low values, Mr. Tambosso believes 2009 will be a robust year for the M&A market and predicts increased activity in corporate purchases by royalty income trusts and also more property transactions in 2009 compared to last year. As well, he forecasts that companies with banking issues in Canada will likely be pressured to enter into takeover transactions.

Based on a slew of rock-bottom valuations that he is seeing in the resource sector, Tommy Nguyen, portfolio manager with Palos Capital Management Inc. in Montreal believes takeover activity if not values will improve before the year is out. "If we see some improving economic data in the U.S. and in Canada, we could get some

increased activity in M&A in the second half of '09, especially in sectors that have been selling off, like oil & gas," he says.

"Once corporate management teams become more bullish towards an economic recovery and a recovery in commodity prices, they will start picking off the names that are trading at the cheapest levels."

Mr. Nguyen says there are lots of junior and mid-tier companies trading at book value or less, in some cases, even at just cash value. While it is important to identify these stocks, the manager cautions investors from buying them now, in anticipation of a takeover bid sometime down the road. "Take for instance, Gobimin Inc. a venture company with a cash value of \$1 per share that is trading at around 70¢. This is the type of stock that has become very appealing to us, but to buy it now in anticipation of future M&A activity? I still don't think it's the right time."