

With Petrocan gone, who's next?

Cheaper now to buy than dig; Exxon Mobil tapped as next one to make a move

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VANCOUVER — The \$19-billion deal to merge **Suncor Energy Inc.** with **Petro-Canada** could be the "opening volley" in a round of mergers and acquisitions this year.

Collapsing commodity prices have led to severe slides in stock prices, slashing the value of reserves held by companies as their stock-market value erodes. Now, the easiest - and cheapest - way to find barrels of oil and natural gas for energy companies is to pull out the wallet to buy the nearest rival.

The gap between the cost to buy barrels rather than drill for them is larger than ever, according to analyst Ben Dell of Sanford C. Bernstein & Co. in New York, who issued a report yesterday on potential industry consolidation.

Buying an average company, and by extension, its undeveloped reserves, costs \$11 (U.S.) a barrel. That is about half of the \$21 a barrel, on average, it cost the industry to find and develop new reserves in 2008 through exploration, Mr. Dell noted.

"It appears the energy space is on the cusp of an M&A boom," he said.

Mr. Dell foresees companies such as cash-rich Exxon Mobil Corp. and other major oil companies hunting for smaller prey to fill gaps in their exploration portfolio, to ensure they have enough territory to search for new finds in the future. He also sees large exploration companies buying smaller firms, adding to their portfolios while also cutting costs.

The Suncor deal essentially fits the second mould: Petrocan, because its stock is so cheap, adds instant cash to Suncor's position, provides development opportunities, and allows the companies to slash spending in areas of overlap.

"Consolidation makes an incredible amount of sense," said Bill Bonner, president of Brickburn Asset Management Inc. in Calgary.

The Suncor-Petrocan deal also appears to address another issue that has held back long-predicted consolidation. With market values so much lower now than six months ago, investors have been wary to accept cash for stock that they view as unreasonably beaten down. In Petrocan's case, investors will receive stock in Suncor, so if oil rises, they can be part of any gain, said Alan Tambosso, president of consultant Sayer Energy Advisors in Calgary.

Andrew Martyn, a vice-president at Davis-Rea Ltd., said Suncor-Petrocan could well be an "opening volley" in a flurry of consolidation. "These generally are not one-hit wonders," he said, noting that deals in oil and other industries, such as mining several years ago, tend to occur in batches.

Many scenarios were spun yesterday by market participants trying to figure out who's next. Companies that have been often cited as takeover targets, such as Nexen Inc. and Talisman Energy Inc., both of which have attractive but disparate assets, each saw their stocks rise by about 10 per cent.

All eyes are on Exxon Mobil. The world's largest publicly traded oil company was formed in 1999, in a wedding valued at about \$80-billion U.S. Based in Irving, Tex., it holds a huge ace right now - more than \$30-billion of cash on its balance sheet at the end of 2008, far more than any player.

"If this isn't the time for Exxon Mobil to undertake a corporate M&A spree, then investors could be forgiven for asking what the company is exactly waiting for, and what it is hoarding [\$31-billion] for," Mr. Dell said.

Among Canada's smaller junior explorers, consolidation is likely, said analyst Robert Fitzmartyn of FirstEnergy Capital.

Yesterday morning, NAL Oil & Gas Trust, along with a financial partner, the large insurer Manulife Financial Corp., said it is buying struggling and indebted junior Alberta Clipper Energy Inc.

The involvement and interest of an outside and major entity, with long-term thinking, such as Manulife is a "bullish" sign for asset prices in the energy business, Mr. Fitzmartyn said.

Other downturns, such as 2001-2002, and 1998-1999, led to numerous deals, including the creation of EnCana Corp., a merger of Alberta Energy Co. and PanCanadian Petroleum.