

Mergers, acquisitions running behind last year's sluggish pace

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With less than three months to go in 2009, it has been a surprisingly sluggish year thus far for oilpatch dealmakers.

The sharp drop in oil and natural gas prices hasn't triggered a rash of opportunistic deals, as some might have expected. Nor has the big slowdown in drilling activity.

Although Suncor's megadeal for Petro-Canada vastly inflated the total dollar value of this year's merger-and-acquisition transactions, the underlying picture is far from upbeat.

If one sets aside the Suncor purchase-- which accounted for 90 per cent of the \$31-billion worth of deals announced in the first half--both the value and volume of transactions was down from the already-depressed levels of early 2008, says Sayer Energy Advisors.

Ditto for the number of transactions valued at over \$5 million. In the first half of 2009 there were only 48 such deals, says Sayer, versus 81 in the first half of 2008.

In fact, the Suncor acquisition --which Sayer values at \$27.7 billion, based on enterprise value--was the only deal that topped \$1 billion through June 30. By comparison, there were four billion-dollar-plus transactions in the first half of 2007.

Nonetheless, signs of life are returning to the M&A market, insists Sayer VP Tom Pavic.

Although the Calgary-based energy advisory services firm is still compiling data for the third quarter, Pavic says preliminary data shows about \$6 billion worth of deals were unveiled, including Petrobank Energy's \$3.1-billion purchase of TriStar Oil & Gas. (The \$3.1 billion figure reflects TriStar's enterprise value.)

That exceeds the value of all deals done in the first half--again, if one excludes the blockbuster transaction between Suncor and Petro-Canada.

Petrobank plans to combine its own conventional oil assets with TriStar's to create a new company called PetroBakken Energy. It will focus on the prolific Bakken oilfield in southeastern Saskatchewan.

"It has picked up. TriStar was the biggest deal in the quarter, and a lot of the deals--such as the Crescent Point deals--are on the oil side. That seems to be the flavour of the day, since they can be financed," says Pavic.

Crescent Point has also been busy. It has completed roughly \$1.5 billion worth of acquisitions this year, including a \$325-million deal with Talisman Energy; the acquisition of Wild River Resources for \$170 million; and the purchase of Gibraltar Exploration for \$200 million.

Crescent Point also announced a \$1-billion spending spree in August on Saskatchewan oil assets, including the \$665-million purchase of privately held Wave Energy. "Once Crescent Point announced those deals, automatically they were able to raise money to finance them," notes Pavic.

"On the natural gas side there is some activity. But it's not a lot compared to what we're seeing (on the oil side) with Crescent Point, or with Daylight buying Highpine Oil&Gas (for \$530 million). That was an oil-weighted deal too."

In the less glamorous oilfield services sector, where depressed natural gas prices have driven drilling activity levels into the basement, it's a lot tougher to assess the value or volume of M&A activity. Since many firms are privately owned, a lot of deals simply go unreported.

Aroon Sequeira, a senior VP and partner with Ernst&Young Orenda Corporate Finance in Edmonton, says activity has been slowly picking up since the end of the first quarter.

"Back in January or February, the prevailing thinking was that the world economy may just collapse, and the world financial system as we know it could collapse. That's not an environment in which companies typically do transactions," he says.

Since then, the stock markets have rebounded, and access to capital has improved, setting the stage for a pickup in activity, he says.

"Some of the uncertainty is gone, and our ability to finance transactions is coming back. The IPO market is also coming back, and just the general level of confidence is coming back. So that will have a positive influence," he says.

"Our sense today is that it's not as good as it was two or three years ago, but it's a heck of a lot better than it was six months ago."

If drilling activity doesn't pick up this winter, Sequeira says that could set the stage for a frenzy of deal making next spring.

"The drivers going forward would be companies in distress, that have held off so far. In the oilfield-services sector, if they have a bad winter, that might be the turning point. They could be forced into a transaction," he says.

Luke Puxley, director of energy services with ATB Corporate Financial Services, agrees.

"It has been a fairly slow year so far. There's a value gap between the bidders and the sellers. The sellers still want to fetch a reasonable price for their assets, and the bidders are looking to take advantage of great discounts during the trough," he says.

"Winter is obviously when these companies expect the highest activity levels of the year.

"So going into the spring, if they haven't made money through the winter, they're not going to have those cash reserves. In which case they'll be pressured to sell. So I think that's when we'll see a bit more M&A activity."