

Asset sales could make 2010 year of the deal

Acquisitions set to build on 2009's gains

BY SHAUN POLCZER, CALGARY HERALD MARCH 9, 2010

With an abundance of assets already on the market, 2010 is shaping up to be a big year for mergers and acquisitions after 2009 saw the first increase in two years.

Fuelled by the Suncor and Petro-Canada merger and the ExxonMobil-XTO deal in the United States, 2009 marked the first increase in global acquisition activity since 2007, according to a report by Connecticutbased IHS-Herold.

The total value of deals last year rose 40 per cent to \$150 billion US, with \$100 billion, or two-thirds of all activity, occurring in North America, according to the company's annual upstream review. The Suncor merger was Canada's largest deal by far, accounting for about a fifth of the overall value North American deals.

A rash of deals by national oil companies and international oil companies jockeying for resources also helped drive the increase, said senior vice-president Bob Gillon.

"The Chinese returned in 2009 in a big, big way. The Chinese and other Asians are looking at heavy oil and natural gas. We could easily see more of that (in 2010)."

Three of the 10 biggest deals involved Canadian companies -- the \$4.15-billion sale of Harvest Energy Trust to Korea National Oil Corp. came in at No. 5, while Petrobank's \$2.55-billion tie-up with Tri-Star Oil and Gas ranked eighth.

Meanwhile, five of the top 10 deals involved state oil companies or sovereign wealth funds, including the Harvest-KNOC deal and Sinopec's \$9-billion takeover of Addax Energy, a Canadian listed company active in Africa and the Middle East.

And 2010 is shaping up to be another big year as major independents shed non-core properties to focus on unconventional resources such as oilsands and shale gas.

According to Houstonbased PLC Inc., there are now \$43 billion worth of assets for sale compared with less than \$20 billion last year. Where unconventional assets accounted for about nine per cent of deals in 2007, the figure climbed to 45 per cent last year.

"The oil and gas deal markets have shifted to a new paradigm and new asset types, namely unconventional oil and gas production primarily sourced from gas shales, tight gas sands and oilsands," it said in a news release.

In an interview, managing director Brian Lidsky said the entrance of international oil majors and state-owned entities speaks to the success smaller independents in both Canada and the U.S. have had advancing new drilling technology on both sides of the border.

"The need to secure long-term oil and natural gas supplies by European and Asian companies is driving these companies to these large resources. We do see continued activity by international players to leverage the knowledge learned in North America to expand this new asset class worldwide."

Lidsky said three of the five largest asset packages available are in Canada. In addition to Suncor's plan to shed up to \$4 billion worth of dispositions, Talisman Energy and Nexen have announced plans to sell significant production to focus on unconventional shales. Likewise, EnCana and Cenovus are moving to sell non-core gas reserves and production, and Opti Canada -- Nexen's partner in the Long Lake oilsands project -- has put itself up for sale in a deal that could potentially be worth \$2.5 billion.

Alan Tambosso with Sayer Energy Advisors in Calgary agreed there is a relative abundance of property for sale, but suggested the market is demanding unconventional assets, not the bread and butter conventional gas that's being offered.

"The assets out there are very large and they're conventional gas, which most people don't want to buy," he said in an interview. "The big question is who is going to buy those packages."

According to Sayer, which released its own Canadian M&A study this month, the overall value of deals went up but prices paid went down. Gas reserves that sold for \$2.46 per thousand cubic feet in 2008 went for \$1.48 last year, with production prices averaging \$37,000 per flowing barrel. Both reserves and production are the lowest since the early part of the decade, Tambosso said.

After stripping out the Suncor deal, Canadian activity was roughly equal to 2008, which was the lowest since 2003, he added.

Although 2010 is expected to see a rise in absolute value, Tambosso said he wouldn't be surprised if prices paid fall further.

"When you flood the market with an asset nobody wants to buy, it's hard to see prices going up."