Oil valuations climbing

Prices rise as asset sales remain strong

BY DAN HEALING, CALGARY HERALD JULY 20, 2010

A large and growing portfolio of western Canadian oil and gas assets for sale is expected to help drive continued strong energy merger and acquisition statistics into the second half of 2010.

In a report Monday, ATB Financial said there were 46 transactions for $8.2 billion in Western Canada in the second quarter of 2010, versus 32 worth $1.2 billion in the same three months of 2009.

That brings the total for the first half of the year to 69 transactions worth $10.7 billion, versus 43 deals for $28.6 billion in the first six months of 2009 (with the latter number boosted by Suncor Energy's $18-billion purchase of Petro-Canada).

The report identifies a trend to higher production valuations per flowing barrel of oil equivalent per day that started in the fourth quarter of 2009. While deals in the first two quarters of 2009 averaged $56,000 and $40,000 per boe/d, respectively, deals in the first two quarters of 2010 delivered averages of $70,000 and $64,000.

"The numbers are up and, as you can probably imagine, there's been a bit of a focus on oil-weighted deals and so it's pushing up the (price) because guys are paying upwards of $80,000, $90,000, $100,000 per flowing (barrel per day)," ATB economist Victor Martinez said.

He said light oil producing assets sold for an average of $106,000 per boe/d in the first half of 2010, the highest in at least three years. ATB notes the average was $81,000 in the first half of 2009 and $73,000 in the first half of 2008.

Crude oil for August delivery rose to $76.54 US a barrel on the New York Mercantile Exchange on Monday, while gas settled at $4.51 per million British thermal units, down 19 per cent this year.

Tom Pavic, vice-president of Calgary-based Sayer Energy Advisors, said numerous packages of western Canadian oil and gas assets are on the market now as producers aim to more tightly focus their portfolios.

"Compared to the last few years, definitely, there are a lot more packages out," Pavic said. "Especially by the large companies such as Talisman and Encana and Suncor.

"They've had packages out earlier this year and the plan is to put more out this fall."

This month, U.S. producer EOG Resources Inc. recruited Calgarybased Macquarie Tristone to help it sell shallow gas wells producing 27,800 boe/d in southern Alberta and Saskatchewan so that it can divert capital to the Eagle Ford shale play in southern Texas. The assets are expected to bring in up to $1 billion.

Similarly, NAL Oil & Gas Trust of Calgary is working with local investment bank FirstEnergy Capital Corp. to list for sale 10 packages producing a net 1,900 boe/d (about 48 per cent oil and liquids).

NAL, which plans to convert to a corporation at year-end, is focusing on development of unconventional Cardium light oil in Alberta, president and chief executive Andrew Wiswell said, plus the Mississippian oil play at Hoffer, Sask.

"We've done some acquisitions and we're going to focus our portfolio on the more strategic assets and take these proceeds and reinvest them back in the ground in our strategic areas," he said.

ConocoPhillips has listed eight packs of assets -- seven gas-weighted -- with Scotia Waterous that produce 10,600 boe/d.

"Oil continues to garner very decent prices, as does natural gas with liquids content," said Pavic. "Natural gas without liquids tends to be a bit of a tougher sled."

In a report also released Monday, London-based Evaluate Energy noted $42 billion US of exploration and production assets changed hands around the world in the second quarter of 2010 -- the second most active quarter of the past three years.

The biggest was the fourth quarter of 2009, when ExxonMobil's $41-billion purchase of U.S. shale gas player XTO Energy bumped up the total to $81 billion.

U.S. shale gas buys also buoyed the more recent three-month period, accounting for $12 billion worth of deals.

Deals added up to $28 billion in the second quarter of 2009.

Evaluate also reported that $5.5 billion US worth of oilsands sales were announced during the second quarter. The biggest was Sinopec's $4.65 billion purchase of ConocoPhillips' nine per cent interest in Syncrude Canada, followed by China Investment Corp. acquiring a 45 per cent interest in Penn West Energy Trust's Peace River assets for $780 million.

It added shale assets are attracting big bids at government drilling lease auctions, with the latest Michigan lease sale in the Collingwood shale bringing in $178 million, a record for the state and just under the $190 million raised in the past 81 years combined.

"The June 2010 British Columbia lease sale that focused on the Montney shale play attracted $404 million of high bids whilst Alberta's latest lease sale in the Duvernay shale announced in early July grossed $451 million of bids," it noted.

Offshore assets attracted $9.4 billion worth of deals during the second quarter, Evaluate reported, including Sinochem, buying a 40 per cent interest in the Peregrino field offshore Brazil for $3 billion and Apache acquiring Gulf of Mexico assets for $1.05 billion from Devon and agreeing to acquire Mariner

Energy for $3.9 billion (of which approximately 65 per cent of the value is attributable to Gulf of Mexico assets).

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