

Oil and gas asset sales expected to rise

Junior oil and gas companies shedding non-core properties

BY DAN HEALING, CALGARY HERALD OCTOBER 13, 2011

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Junior oil and gas companies are using sales of non-core assets to keep drilling rigs rotating as poor stock prices prevent raising money on equity markets.

Photograph by: Ed Kaiser, SEE BYLINE!

CALGARY — Junior oil and gas producers unable to raise money on stock markets because of low share prices are increasingly turning to asset sales to win capital and keep their rigs drilling.

And as companies prepare budgets for the winter drilling season in Canada, the quantity of resources coming on the market suggests a busy time ahead for mergers and acquisitions, says Alan Tambosso, president of Sayer Energy Advisors of Calgary.

“The number of companies that are trading at a discount to their value has got to attract more interest from other companies — as long as they’re focused,” said the head of the M&A advisory firm.

“There’s a lot on the market right now that’s coming up, of assets. There are a lot of companies that are looking for strategic alternatives so, yeah, it’s almost like the floodgates are set to open on the M&A market.”

Last weekend, Sinopec offered \$2.2 billion in cash for intermediate producer Daylight Energy Ltd. Earlier, intermediate Birchcliff Energy Ltd. said it would seek a buyer after receiving an unsolicited takeover offer.

A report this month from ATB Financial Services shows that there have been 81 transactions involving Canadian energy firms through nine months this year, a slower pace than in 2010, when there were 109 deals as of Sept. 30 on the way to 138 for the year.

Values are also down, at \$4.9 billion so far in 2011 versus \$24.5 billion in all of 2010 and \$41 billion in 2009.

Of the 25 deals listed in the third quarter, seven were company sales and 18 were asset sales.

“Normally, about 75 to 80 per cent of the value of transactions is done in corporate deals (where the entire company is sold),” said Tambosso.

“Last year it was flipped around and more of the deals were in properties. Third quarter, if you take out Opti (selling for \$2.1 billion), less than 10 per cent of the value has been in corporate.”

He explained growing companies are trying to build resource plays because investors are looking for that. The companies need specific assets and aren't willing to buy a bunch of unwanted properties to get them.

Meanwhile, junior and mid-sized stocks on the Toronto Stock Exchange have lost 19 per cent of their market value since January.

“It's really about access to capital, especially with these resource plays like the (Alberta) Cardium that are really expensive to access,” said Aaron Swanson, an analyst who covers junior companies for Dundee Securities.

He said selling assets that the company can't afford to develop anyway is a good strategy, adding that slimming down to become a pure player in a certain resource tends to make a company a takeover target.

Several companies have announced reserve reviews recently, which could potentially point to more assets coming into the M&A market and more activity, said Swanson.

On Thursday, Calgary junior Compass Petroleum Ltd. announced it has begun a “review of strategic alternatives,” phrasing which often means the company is for sale.

Its stock rose 12 per cent to \$1.34.

“Compass has developed significant assets on the Viking light oil resource play in the Dodsland area of west central Saskatchewan,” said Yook Mah, president and chief executive, in a news release.

In September, Compass sold all of its oil and gas assets in Alberta to a private company for \$29.3 million, leaving “its exclusive focus” on the Viking.

Tambosso said getting rid of the distractions in the portfolio actually enhances Compass's appeal — otherwise, he said, it's a little like trying to sell a three-piece suit to a man who just wants a pair of pants; no matter how good the deal is, the sale isn't going to happen.

A similar process was followed by Calgary junior Cinch Energy Corp. earlier this year. It sold "non-core assets" for \$13 million, then announced its corporate sale to Tourmaline Oil Corp. for \$205 million worth of stock.

Another junior producer, Chinook Energy Inc., announced in August it aims to sell at least \$75 million of assets this year and \$150 million in 2012 to strengthen its balance sheet and improve "the operational focus of its domestic assets."

Debt markets are an option for some junior players but many are too small and generate too little cash flow to make debt a wise choice, said Swanson.

He added that companies that issue new stock at cheap prices tend to alienate their existing shareholders who bought in at a higher price.

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