Canada's Energy Patch Is Roaring Back

Description

On Monday, **Whitecap Resources** (TSX:WCP) announced an agreement to buy some producing oil and gas assets from **Imperial Oil** (TSX:IMO) for $855 million. Whitecap is funding the purchase with a combination of debt, equity and an asset sale. Investors were very receptive to the idea, with the stock price jumping more than 7% on the day.

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The transaction is just the latest in what seems to have been a resurgence in Canada's energy sector. Total merger and acquisition (M&A) activity for the industry reached $7 billion in 2014, nearly 10 times the total for the first quarter of 2013. This is certainly great news for the investment bankers, but what else does it mean for Canadian energy? And what has caused the turnaround?

Stronger prices

One of the major reasons for the resurgence is the rebound in Canadian energy prices. Oil prices are surging thanks to increased pipeline capacity and the growing use of rail. There has also been plenty of positive news regarding pipeline applications in recent months. Northern Gateway got a positive recommendation from the National Energy Board, the Line 9 reversal got approved, and Keystone XL got a favourable environmental assessment.

Meanwhile, natural gas has spiked due to frigid winter temperatures across North America. At one point, gas prices in the United States exceeded $6 per Mcf, something that would have been unthinkable two years ago.

The stigma is disappearing

At this point last year, there were too many companies in the energy patch that had overstretched themselves and were looking to sell assets. But there were not enough buyers. And negative headlines about pipeline bottlenecks and natural gas oversupply were popping up constantly. This meant that most companies would look bad by buying assets, even at discounted prices, and this dynamic persisted for the rest of 2013.

One of the turning points came earlier this earlier this year, when **Canadian Natural Resources** (TSX:CNQ

)(NYSE:CNQ) bought some natural gas assets for $3.1 billion. The company was praised for picking up assets at a discount, something that may not have happened a year ago. Other companies were certainly watching, and are now more likely to shop around for assets.

Good news for sellers

This is all great news for the producers that are looking to shed assets. One example is **Encana** (TSX:ECA)(NYSE:ECA), one of the companies that had overextended itself. With the market more frothy, the company may not have to concede as much on price as it tries to trim down. It is no coincidence that its shares are up over 17% this year.

Foolish bottom line

In Canada's energy patch, it is still far better to be a buyer than a seller. But this is slowly changing, and that is welcome news for sellers such as Encana. If this trend continues, then the M&A market may finally reach equilibrium. Just don't count on that happening right away.

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TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. TSX:CNQ (Canadian Natural Resources Limited)
3. TSX:IMO (Imperial Oil Limited)
4. TSX:WCP (Whitecap Resources Inc.)

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