The Energy Deal Market Is Back — Who Benefits Most?

Description

The light at the end of the tunnel is now within arm's reach. At least that's how Canada's energy patch is feeling, with merger & acquisition (M&A) activity back from dreadfully low levels in 2013. A number of factors have helped, including a weak Canadian dollar, easing of price discounts, and geopolitical events elsewhere in the world (such as Ukraine).

This has resulted in buoyant equity prices – in the first quarter of 2014, Canadian energy producers' stock prices rose 11% on average. The junior producers, who often rely on healthy M&A activity, saw their shares rise over 20%.

And the news may only get better. So what are the best ways to play this trend? Below are three different ways to bet that the M&A party is only getting started.

1. The sellers

There are plenty of companies that have been trying to sell assets over the past couple of years. And this has not been the best time to do so. With M&A activity drying up in 2013, these companies were trying to sell assets into a buyer's market. But now that the market is more balanced, sellers should have an easier time unloading unwanted properties.

Perhaps the best example is **Encana** (TSX: ECA)(NYSE: ECA). After overextending itself in the past, the company is trying to slim down under new CEO Doug Suttles. It has clearly been having an easier time – it even sold some American LNG assets on Monday to privately owned Stabilis Energy.

Tellingly, Encana's shares have been on a role this year, returning nearly 30% year to date.

2. The growers

There have also been plenty of energy producers over the past year that have struggled to raise money. As a result, growth projects have had to be delayed. But with deal flow roaring back, these companies may finally get to realize their true potential.

A good example here is **BlackPearl Resources Inc** (TSX: PXX). BlackPearl produces about 10,000 barrels of oil per day, but owns a project called Blackrod that could eventually produce 80,000 barrels per day. Unfortunately this project has not gotten beyond a piloting phase due to a lack of funding. But that could soon change, and if it does, the stock should benefit.

Like Encana, BlackPearl shares have performed well already, returning 30% year to date.

3. The bankers

The energy M&A boom doesn't just benefit the producers. It has a positive impact on all sorts of sectors in Western Canada.

Financial services is a perfect example. As energy companies grow and strike deals, they need financing, and one company that provides it is **Canadian Western Bank** (TSX: CWB). The company has over $16 billion in loans (out of $19 billion in total assets) with 84% of them being business loans. And 78% of the loans are in either Alberta or British Columbia. So few companies are cheering for healthy financial activity in Western Canada more than CWB.

CWB shares have also performed well, up 38% in the last 12 months.

Foolish bottom line

Investors who bet on an energy renaissance in Canada are certainly glad they did so. But that does not mean it's too late to join in. And for investors who are optimistic about the deal market out west, these are great ways to make that bet.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CWB (Canadian Western Bank)

Category

1. Investing

Date
2025/07/27
Date Created
2014/04/15
Author
bensinclair