



Why Crescent Point Energy Corp. Plunged 5%

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) is buying struggling rival **Legacy Oil Plus Gas Inc.** (TSX:LEG) in a deal that may signal a larger turnaround for the energy industry.

The acquisition follows a challenging period for Legacy that included the entrance of an activist investor. Legacy holders will receive 0.095 Crescent Point shares of each Legacy share in a deal valued at \$1.5 billion. The transaction values Legacy's stock at \$2.85 apiece, or a two cent discount from where shares closed on Tuesday.

So what?

The deal shows how energy companies hobbled by high debt levels are folding under the pressure of low oil prices. Until now, many would-be sellers had hoped energy prices would rebound, but the recovery so far has been muted.

"With the precipitous drop in oil prices beginning in July 2014, Legacy's valuation has come under pressure," Legacy said in a statement about Crescent Point's offer. "The company's financial leverage, which was improving in the first half of 2014, also began to erode, putting additional pressure on Legacy's share price."

Crescent Point had been widely expected to be a buyer, thanks to its relatively solid financial situation. The acquisition will help consolidate the firm's acreage in Saskatchewan, adding 22,000 barrels of oil equivalent per day to the company's production.

"We are acquiring an exciting new southeast Saskatchewan resource play with low capital costs and high rates of return," Crescent Point president and CEO Scott Saxberg said in a statement announcing the deal late Tuesday. "Cash on cash payouts [are] expected to be similar to our other shallow resource plays."

Shareholders, however, are unimpressed. To finance the transaction, Crescent Point is also selling 21 million shares in a bought deal at \$28.50 each. That represents a 4.6% discount to the stock's closing price on Tuesday.

Now what?

The question now is whether or not this transaction will spark a wave of merger and acquisition activity across the oil patch. It has been rumoured for weeks that Crescent Point is on the verge of taking over Teine Energy Ltd., a private oil producer with assets in Saskatchewan. A number of other cash-strapped names would also make tempting targets to stronger rivals.

However, rather than selling assets, weak companies have been able to hold on. Capital markets have been receptive to debt and equity issues, as well as rewriting the terms of existing liabilities. Furthermore, energy producers have been rejecting asset sales and takeovers because they have been able to tap into a new source of funds—private equity.

With plenty of other avenues to raise cash, today's deal between Legacy and Crescent Point could just be a one-off event.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:VRN (Veren)
2. TSX:VRN (Veren Inc.)

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Author

rbailieul

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