Canada's Energy Sector Is Heating Up: Will it Explode in 2018?

Description

With a number of high-profile energy infrastructure companies tapping equity markets to fuel growth, long-term investors considering placing their hard-earned money in some of Canada's best energy firms have followed suit, investing significant sums in Canada's energy industry, as some of the country's largest companies have filed for secondary offerings on the TSX of late.

With the rise in commodity prices, the increase in the number of secondary issuances by Canadian energy firms could be considered indicative of a few key factors investors need to keep in mind.

In general, companies tend to look at raising capital via tapping equity markets when stock market valuations become frothy and competition for equity offerings remains low, providing a situation where money can be raised at reasonable rates, and the long-term costs to current shareholders can be held at a minimum.

This past week, **Keyera Corp.** (TSX:KEY) has become the latest among its peers to file to raise additional funds, selling nearly $430 million in equity in a bid to restructure the company's balance sheet and continue to invest in growth initiatives. The share sale by Keyera has received a solid response from investors, indicating the market remains favourable for companies that are well positioned to take advantage of a stabilizing oil market, or those with lower correlation to oil prices, given heightened volatility in recent years.

Besides raising money to complete a leveraged recapitalization (something many Canadian oil and gas firms are in dire need of, given elevated debt loads in many acquisition-hungry companies), some of Canada's largest energy infrastructure companies are raising money via equity issuances for other reasons altogether.

Enbridge Inc. (TSX:ENB)(NYSE:ENB) recently announced the company would issue shares and sell assets in a bid to solidify investor confidence in the company's ability to continue to churn out double-digit annual dividend increases — something that remains a top priority for companies with long histories of dividend increases or dividend growth. Shares of Enbridge rebounded more than 10% since the announcement — a testament to the need for many oil and gas firms to keep up appearances and avoid investor flight, which has plagued the sector for more than two years now.

Bottom line

Companies raise money for a variety of reasons, and it is important for investors to identify whether or not an equity issuance is really in the best interest of existing shareholders. That said, picking up shares of a good company issuing equity to pay down debt following a brief "dilution scare" may be a good idea in today's rising commodity price environment.

Stay Foolish, my friends.

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