Energy Crisis: Gas Stocks Primed for Merger Jump

Description

It looks like energy stocks may brace for even more of a shakeup in the years ahead. After half a decade of sinking oil and gas prices, which brought shares plummeting, energy companies finally agree: action needs to be taken.

What this action could be is entering a phase of mergers and acquisitions. And it's already begun. This month, **Cenovus Energy** (TSX:CVE)(NYSE:CVE) agreed to buy rival **Husky Energy** (TSX:HSE) for a whopping $3.8 billion. The deal puts Cenovus as the third-largest energy company in Canada. It also saves Husky, which has been suffering for years under current market conditions.

But why did this benefit Cenovus? And could this be the start of something in Canada?

The Cenovus side

While shares in Husky jumped 20% after the merger, Cenovus stock dropped at the news. The merger may have cost $3.8 billion, but it brings total debt up to a whopping $23.6 billion. While this might save costs on production and operational performance in the long term, some analysts wonder why this wasn't going to happen further down the road when the company had more currency.

Either way, this new merger is just the latest in what seems to be the new trend. Companies that are drowning in debt and needing a life raft are courting options. While it could mean huge energy giants start taking over Canadian companies, even some in the United States, it could also mean that smaller companies begin merging to create a larger, cost-effective company.

It's already started to work for the gold sector. Merging and acquisitions have been happening all around to turn small miners into global players. The diverse portfolio of mines means when one isn't producing, another part of the world is. Should the energy sector take a similar angle, this could send energy companies back on top. This is true for Cenovus, as the company now has assets in Asia thanks to the Husky merger.

It’s only just begun

As I mentioned, it’s likely that this merger market has only just begun. There are to be companies merging all over the place, similar to the gold industry, in the years ahead. This could be the boost the Canadian oil patch needs to alleviate some of the costs brought on by a slumping economy and oil and gas glut.

But, of course, what Canada really needs is a strong economy and a government able to support these companies in growth. This will only happen once the economic downturn ends and pipelines are built. So, it could still be several years until energy stocks rise to full potential once again.

Then there is the argument by analysts that this could be the beginning of the end for energy stocks. Energy companies are seeing less investment in their companies, and more in renewable energy. Oil and gas could go the way of coal and soon be sent out to pasture in the coming decades.

By consolidating, these companies have more capital available to diversify into the renewable energy market. Should this happen, you could soon see many companies ripe for a boost in share price as more cash comes in.

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