1 Merger Deal with Massive Impact Investors Might Be Missing Now

Description

Deals are happening in Canada — lots of deals.

Indeed, for companies looking to combine forces, it seems there's never been a better time. A number of high-profile mergers of late have reignited expectations more big deals could be on the horizon. Investors may think of the recent **Rogers Communications** acquisition of **Shaw Communications** as one example.

However, while the headline-making deals will always be out there, sometimes it's a good idea to take a look at the smaller business combinations. After all, these can often provide much more synergies and value for the parties involved. Mega deals have regulatory headwinds and typically involve spin-offs. However, smaller deals can often have much more upside.

Accordingly, let's look at the recent merger between **Seven Generations Energy Ltd.** (TSX:VII) and **Arc Resources Ltd.** (TSX:ARX).

Merger details

Seven Generations and Arc announced their $8.1 billion all-stock merger in February to create Canada's sixth-largest oil and gas company. This deal is inclusive of debt. Shareholders of both the Canadian energy companies approved the acquisition, with 96.08% of votes in the Arc shareholders meeting in favour of the deal.

The shareholders of Seven Generations also supported the deal, with final reports showing 99.41% votes approving the agreement. Arc's offer of 1.108 common shares per each Seven Generations share values the latter at approximately $2.86 billion. The new Arc Resources will be headquartered in Calgary, and the deal has been put forward for regulatory approvals.

Upon completing the deal, Arc shareholders are set to own approximately 49% of the combined entity. Seven Generations shareholders will own the remaining 51% of total outstanding shares. The newly joined competitors will continue to focus on free funds flow generation, leveraging their pay-out consistency and long-term growth strategies.

Why this merger matters for investors

As in any sector, size matters.

This new combined entity will position the combined company as a dominant force in Canada's energy sector. Specifically, the company's focus on the Montney Shale region, an expanding underground formation along the Alberta-B.C. border, is going to be paramount for investors to consider. Apart from being the sixth largest Canadian upstream energy producer, it will also be the largest condensate producer and third-largest producer of natural gas.

The combined overall production is expected to come in at more than 340,000 barrels of oil equivalent per day in 2021, 138,000 barrels of liquid-like condensate, and 1.2 billion cubic feet of natural gas per day. As per the merger announcement, the combined entity expects to generate cost savings of approximately $110 million per year by 2022. Additionally, the company's expecting to continue to pay Arc's quarterly dividend of $0.06 per share.

Bottom line

This merger may seem inconsequential to the average investor when compared to other deals in the headlines. However, this merger is a big deal for energy investors seeking leverage to commodity prices, and more importantly, scale.

I think this could be one of the most overlooked deals this year thus far. Investors bullish on energy may want to consider picking up shares in either company as they head into their merger.

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