



1 Top Canadian Merger No One's Talking About

Description

Many Canadian investors have their hands full in terms of M&A activity of late. Whether it's the **Rogers-Shaw** deal or the **CN/CP** acquisition of **KSU**, there are a number of big headline deals out there.

However, this means other deals aren't getting the same amount of attention. Here's why I think the **Arc Resources** ([TSX:ARX](#))-**Seven Generations** (TSX:VII) merger is a [bigger deal](#) than investors think right now.

Smaller deal with a big impact

Arc Resources is making its move in this post-pandemic environment. The company's set to be one of the country's senior producers after its merger with Seven Generations.

Size and scale is important in any business. However, in the energy space, it's key to margin expansion over time. Commodities are a fickle business. However, well-timed mergers and acquisitions can do wonders to create meaningful synergies for producers.

This deal provides the combined entity with some valuation asset consolidation in the gas-rich Montney region of Alberta and British Columbia. In fact, this combination is set to produce Canada's third-largest natural gas producer and largest condensate producer. Indeed, the increased cost savings, larger capital budget, and better access to capital markets are three of a multitude of benefits arising from the deal. Being a part of a bigger company also helps in dealing with market partners.

Arc's increased cash flows arising from this deal are expected to be put to good use. The company anticipates it will be able to reduce its debt levels to 1-1.5 times net debt to annualized FFO. Moreover, Arc intends to invest in the highly potential Attachie area. These moves should provide increased shareholder returns over time.

The company expects to see synergies of nearly \$110 million per year play out. That's substantial. If everything unfolds as expected, Arc could prove to be a steal at these levels.

Bottom line

This \$1.8 billion merger isn't necessarily a small deal. It's smaller than the aforementioned mega deals everyone's watching right now. However, I think there aren't enough eyeballs looking at the Arc-Seven Generations merger right now.

The combined entity will continue to operate, as Arc Resources and will have its headquarters in Calgary. Analyst Cody Kwong of Stifle FirstEnergy believes this deal will bear positive results, keeping in mind synergies, robust accretion metrics, and clear opportunities to increased shareholder returns.

I tend to agree. Investors looking for a high-quality growth play in the energy space should consider Arc/Seven Generations today. I think this combination screams opportunity right now.

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