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## **GETTING PERSONAL CANADA: Pension Funds Leading M&A Revival**

By: Monica Gutschi

Merger-and-acquisition activity is rebounding in Canada, with pension funds and government-owned utilities leading the way.

There were 254 transactions announced in the fourth quarter of 2009 with a value of C\$33 billion -- up 9% from the third quarter and 52% from the first quarter, the period widely seen as the nadir for M&A activity as the global economy stumbled.

"Things have gone a long way back to normal," says Colin Walker, managing director of boutique investment bank Crosbie & Co., which produces a quarterly roundup of Canadian merger and takeover activity. He notes the value of Canadian acquisitions abroad in 2009 outpaced the value of foreign purchases of domestic firms for the first time since 2004 -- and at C\$41 billion was double the C\$23 billion seen in 2008.

But with the U.S. syndicated-loan market still largely moribund and bank financing restricted, the biggest players in the last quarter of 2009 were government-related entities: Canadian pension funds and utilities, and foreign sovereign funds and national energy companies.

The largest transaction announced in the fourth quarter was the C\$6.3 billion bid for Australia's Transurban Ltd. by Canada Pension Plan Investment Board and Ontario Teachers' Pension Plan. Earlier in the year, CPPIB also invested C\$1.7 billion in Australia's Macquarie Communications Infrastructure Group.

The fourth quarter also saw Hydro-Quebec's (HQB.YY) C\$3.2 billion purchase of New Brunswick Power Holding Corp. The provincial utility earlier invested C\$615 million to buy power facilities from pulp and paper producer AbitibiBowater.

Foreign purchases of Canadian companies were also dominated by government entities, with Korea National Oil Corp.'s C\$4.1 billion bid for Harvest Energy Trust leading the pack in the fourth quarter. Other significant investments in the period include China Railway Construction Corp./Tongguan Investment Co.'s C\$680 million purchase of Corriente Resources.

Government-related entities were major players at the top end of the market in 2009 as buyers in eight of the top 15 transactions, according to the Crosbie report.

Walker notes that another theme prevalent in 2009 was foreign companies ensuring access to certain commodities, pointing to China Investment Corp.'s US\$1.5 billion purchase of a 17.2% stake in miner Teck Resources Ltd., and PetroChina's C\$1.9 billion buy of a 60% working interest in Athabaska's oil-sands developments. The theme appears to be continuing in 2010, as China's State Grid Corp. announced a joint venture Tuesday with Quadra Mining to develop and operate the Canadian company's copper projects in Chile, including State Grid's C\$150 million purchase of a stake in Quadra.

The mid-market -- or transactions under C\$250 million -- represented 91% of all M&A activity in the fourth quarter. The Crosbie report noted the oil & gas sector continued to lead industry groups in activity, with 66 transactions worth C\$8.8 billion or 27% of total transaction value. Real Estate displaced Industrial Products for second place, with 41 transactions worth C\$1.9 billion.