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The Blockbuster Deal Returns to Canada: M&A Conference Roundup

By Lori McLeod

Talisman Energy Inc.'s proposed $2.1-billion bid for Paladin Resources of the U.K., and all the rumours about Encana Corp. and Royal Dutch Shell (Encana denied the rumours yesterday) underscored the message delivered by a group of merger and acquisition experts at a Toronto conference yesterday -- the blockbuster deal is back, Canada will be an active participant, and commodities are leading the charge.

After bottoming out in 2003, merger and acquisition (M&A) activity in Canada continues to rally on factors include strong corporate earnings, low interest rates and renewed confidence in financial reporting, according to Scott Keyworth, managing director of M&A at CIBC World Markets.

For example, deal values in Canada so far this year have already surpassed the lacklustre performance of 2002 and 2003, and globally should rise by 33% on an annualized basis compared to 2004, he said. The mega deal appears to be back, with transactions valued at US$1-billion or more making up 52% of M&A value in Canada so far this year, he added.

Energy is playing a big role, with the oil and gas sector leading the charge in Canada in the second quarter with 71 transactions valued at $10.4-billion, according to research by Crosbie & Co.

“Pretty much anything related to energy right now is an M&A play,” David Kassie, chief executive of Genuity Capital Markets, said in a speech.

Much of this is cross-border activity, Mr. Keyworth said, noting the need for superpowers, especially China, to access natural resources. China National Petroleum Corp. is in the headlines with its proposed takeover of PetroKazakhstan Inc., and state-owned Minmetals appeared close to scooping up miner Noranda Inc., although failure to consummate a deal eventually led instead to the Canadian firm merging with Falconbridge.

The failure of the Minmetals transaction demonstrated the Chinese are relatively new to the big cross-border deal, Mr. Keyworth said. However, they are learning quickly and engaging sophisticated legal and financial advisers, meaning more successful deals should come.

M&A and trusts What's a dealmakers conference without a healthy discussion of income trusts? While no one even bothered to try to predict what Ottawa will do with trusts at the conference, there was much discussion over what changes could mean to the M&A landscape.

Trusts have been a bit of a mixed blessing, depending on what type of transaction you specialize in. Their high valuations have been “a stalking horse,” since its nearly impossible for bankers to promise companies the same big EBITDA (earnings before interest, taxes, depreciation and amortization) multiples through a sale compared to the ones they have been achieving through trust IPOs, according to Craig McDougall, managing director of M&A at National Bank Financial.

On the other hand, their strong currency is giving them the clout to make big deals, such as waste-management firm BFI Canada Income Fund's US$1.1-billion purchase of U.S.-based IESI Corp. late last year, Mr. Kassie noted. Hostile bids between trusts, of which customs broker Livingston International Income Fund's recent bid for PBB Global Logistics Income Fund is thought to be the first, could also become more common, especially if the pullback in trust valuations continues, he added.

There's more than a little consternation about the government's interference in trusts from the private equity markets. Private equity funds have created an estimated two-thirds of the business income trust market, and those looking for healthy exit points are now feeling the “chill of uncertainty,” according to Rick Nathan, managing director of the venture group at Goodmans LLP. “It's our own government moving the goalposts in the middle of the game,” he said.