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Mergers Reaching Fever Pitch: Energy Sector Busiest

By Lori McLeod

Canadian merger and acquisition activity hit almost \$50-billion in the third quarter, its highest value in a quarter since the tech boom five years ago. It's also more than 40% higher than the \$29.4-billion in the same period last year.

Mega-deals valued at more than \$1-billion fuelled the fire. Big deals accounted for \$33.9-billion worth or 68% of the value of the 304 deals announced in the quarter, according to a report by investment bank Crosbie & Co.

Oil and gas was the most active sector, making up 25% of total deal volume, and 33% of the total transaction value in the quarter, according to the report.

“The resource sector has been very strong, and companies are using their cash that they've earned and their higher stock prices to grow their companies,” said Keith Graham, senior vice-president and portfolio manager at AGF Funds Inc.

Big deals in the third-quarter included two blockbuster Chinese acquisitions of Canadian-owned assets. China National Petroleum Corp. bought PetroKazakhstan Inc. for US\$4.2-billion and EnCana Corp. sold its Ecuadorian pipeline assets to Chinese state-owned Andes Petroleum Co. for US\$1.4-billion.

“Demand for oil reserves is driving activity in the sector and continues to draw the attention of domestic and international acquirers alike, including China,” said Ed Giacomelli, managing director at Crosbie.

Cross-border deals, including the EnCana and PetroKazakhstan ones, had the biggest price tags, making up only 36% of the total volume but 73% of the value. Canadians were the buyers in most of the smaller deals, and the targets when the values were bigger.

“While fewer in number, foreigners have stepped up their acquisition of strategic Canadian businesses,” Mr. Giacomelli said.

Three of the top five deals by value in the quarter involved foreign companies buying Canadian firms, led by Kinder Morgan Inc.'s \$6.9-billion purchase of Terasen Inc.

Income trust activity, including real estate, royalty and business trusts, rose to 82 deals valued at \$8.9-billion. That compared with 28 deals valued at \$4-billion a year ago. The biggest deal in the sector was Acclaim Energy Trust's \$4.5-billion purchase of Starpoint Energy Trust.

An influx of funds from the hot private equity and hedge fund sectors is also driving M&A activity, said Laura Wallace, managing director of Coleford Investment Management. "But the overriding factor is 40-year lows in interest rates, which makes financing really cheap," she added.

The urge to merge shows no signs of abating any time soon. In the first two months of the fourth-quarter Canadians have seen a continued flurry of activity, including Barrick Gold Corp.'s \$9.3-billion hostile bid for fellow gold miner Placer Dome Inc., and the proposed \$16-billion friendly takeover of Falconbridge Ltd. by Inco Ltd.

"The M&A market is firing on all cylinders," Mr. Giacomelli said. "It should remain robust well into 2006."