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M&A Activity Hits 5-Year High in 2005

TORONTO (Reuters) - Hearty foreign appetite for Canadian resource companies drove Canadian merger and acquisition activity in 2005 at its fastest pace since 2000, and the frenzy is likely to continue, a report by investment bank Crosbie & Co. said on Monday.

According to the report, there were 1,244 announced deals worth C\$166 billion (\$146 billion) in 2005, up from 875 deals worth C\$112 billion in 2004 and about double the value of transactions in 2003. The jump in activity was spread across most sectors, but largely focused in energy and mining as soaring commodity prices enhanced the appeal of Canada's large resource sector.

There was a flurry of major deals, including Barrick Gold Corp.'s <ABX.TO> \$10.4 billion bid for rival Placer Dome Inc. <PDG.TO>, China National Petroleum Corp.'s C\$5.1 billion takeover of PetroKazakhstan Inc., and a bidding war for Canadian steelmaker Dofasco Inc. <DFS.TO> by European suitors Arcelor <CELR.PA> and ThyssenKrupp <TKAG.DE>.

The Dofasco battle started in 2005, but wasn't won until January of this year with Arcelor's C\$5.6 billion bid.

“Soaring demand for energy and base metals has made Canadian resource companies highly profitable and attractive properties for targeting by domestic and international acquirers alike,” Crosbie managing director Ed Giacomelli said in a statement.

The activity was strongest in the final two quarters of the year, when resource prices peaked. In the fourth quarter, there were 388 transactions valued at C\$59 billion, up from 217 deals worth C\$29 billion in the year-before quarter.

The increase in deal value was most apparent in large transactions as there were 34 transactions valued at more than C\$1 billion each, totaling C\$103 billion, compared with 35 valued at C\$48 billion the previous year.

Also contributing was the expansion of the income trust sector, which has continued to grow as issuers have embraced its low-tax structure.

Oil and gas deals made up roughly a quarter of the deals with C\$40 billion worth of transactions, up from C\$24 billion the year before.

Metals and minerals transactions jumped to C\$22 billion from C\$3 billion. This was largely due to Inco Ltd.'s <N.TO> C\$12.8 billion bid for Falconbridge Ltd. <FALlv.TO>, the largest deal of the year.

Cross-border deals accounted for C\$101 billion of transactions, with foreigners being the buyers in C\$65 billion worth of those deals.

M&A activity in 2005 was the strongest since the previous market peak in 2000, but with the increases spread across most sectors, Giacomelli said the market could stay hot.

“We expect strong conditions and positive market psychology to continue to drive activity into 2006,” he said.