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CLAUDIA CATTANEO
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‘We never had it so good’: Canadian investor Adam Waterous is an optimist about energy

Waterous has invested $650 million to acquire Canadian energy assets because he believes conditions are more attractive than they have ever been

Soon after leaving his job in January as the global head of investment banking at Scotiabank, Adam Waterous got a call from a Calgary commercial real estate broker who wondered if he’d lease back his old digs in the vintage downtown building where he started his career.

With a quarter of Calgary’s downtown office space vacant due to depressed oil and gas industry conditions, Waterous worked out a long-term lease for the top floor at a “small fraction” of what he paid a dozen years ago. That’s when he sold the energy investment boutique he formed with his brother Jeff, Waterous & Co., to Scotiabank and left the space to move into the bank’s offices.

“It was like going back to the old house you grew up in,” said Waterous, 55, who is renovating the new/old offices to house his new private equity company, Waterous Energy Fund.

In an interview, Waterous said the deal shows costs in Canadian energy have declined so dramatically it’s back to being a low-cost industry.

It’s one of the reasons he’s an optimist about Canadian energy amid pervasive pessimism, which in recent months resulted in the departure of scores of international companies from Western Canada.

In contrast, Waterous has invested $650 million to acquire Canadian energy assets because he believes conditions are more attractive than they have ever been.

His latest move involved paying $244 million for a 67-per-cent stake in Canadian heavy oil producer Northern Blizzard Resources Inc. from U.S. private equity firms Riverstone Holdings LLC and NGP Energy Capital Management LLC. Waterous also bought Montney producer Strath Resources Ltd.

Waterous said Canadian energy has become very attractive for long-term investors due to a unique and “magic combination” of low costs, a great macro environment, and unprecedented growth potential.

He said the painful restructuring of the Canadian sector of the last two and a half years has put an end to 15 years of hyperinflation, which in addition to soaring rents meant high wages and high service costs.

As far as the macro picture, he disagrees with the assessment of the futures market, which is betting that oil prices will never recover from today’s levels of about $50 a barrel, and that gas prices will actually get worse, implying that excessive supplies will continue forever.

“That is fantastic if you are an investor,” said Waterous. “Hope has been extinguished in the commodities futures market. There is no hope left.”

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Recalling the old Warren Buffett rule to be greedy when others are fearful, and fearful when others are greedy, Waterous said energy prices have always fluctuated and the next step is likely to be up.

Even the addition of tight oil and shale gas will not make up for the production declines of existing fields world-wide, which means mega projects will be needed to meet demand, whether in the oilsands or in deep waters, and won’t be sanctioned at such low commodity prices, he said.

The final ingredient is growth. The exploration and production business in Western Canada – outside the oilsands – has transitioned from a history of modest growth and modest returns to a new environment of explosive growth and high returns in some cases thanks to advances in drilling technologies.

“Admittedly it’s in very narrow pockets, like the Montney and a bit of the Duvernay,” he said. But “we haven’t had those risk/return propositions in my career, even at these low commodity prices.”

Companies like Seven Generations Energy Corp., Tourmaline Oil Corp. and Arc Resources Ltd., have grown into senior producers in record time by tapping resources in “our backyard,” while in the past Canadian companies had to go abroad to achieve such growth.

“We are in the golden age of organic growth in the basin,” Waterous said. “We never had it so good.”

Waterous said the Montney alone, in half a dozen years, has gone from yielding less than 100,000 barrels of oil equivalent a day to more than a million boe/d, and producing almost half of Canadian gas, at a time of low prices.

After such a long stretch of tough conditions, many will doubt the upbeat thesis — though Waterous notes — and he would know — the big money in Calgary was made on investments during bad times, not good.