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Scotia Waterous: High premium on the value of market intelligence

By Bernard Simon

Wall Street's investment banking groups have found a doughty competitor for oil and gas business in faraway Calgary.

Scotia Waterous, a division of the Bank of Nova Scotia, was an adviser to 124 mergers and acquisitions valued at $102bn between 2006 and 2010.

According to Bloomberg, it held top spot ranked by volume of deals – ahead of Royal Bank of Canada, Jefferies & Co, JPMorgan and Bank of America Merrill Lynch.

It was in fifth place ranked by value, behind JPMorgan, Barclays Capital, Bank of America Merrill Lynch and Goldman Sachs.

The pace has continued, if not quickened, in 2011. Scotia Waterous joined Barclays as advisers to BHP Billiton for the Australian miner's $15.1bn bid last month for Petrohawk Energy, a big US shale gas producer. The deal is the sector's biggest in two years.

Scotia Waterous also advised BHP on its $4.7bn acquisition of Chesapeake Energy's natural gas assets in Arkansas.

Most recently, it has joined Citigroup and Morgan Stanley to help Anadarko Petroleum find a buyer for a portfolio of Brazilian oilfields valued at up to $5bn.

Adam Waterous, who founded the company with his brother Jeff in 1991 and remains at its helm, ascribes its growing business to two factors: market intelligence and technical expertise.

"It's a success-begets-success business," says Mr Waterous, who is now also in charge of Scotiabank's entire global investment banking business.

"The more deals you do," Mr Waterous says, "the more market intelligence you get. The more intelligence you get, the better value you provide your clients."

To that end, Mr Waterous takes about 200 flights a year.

"This is a face-to-face business," he says. "You can't get market intelligence off the phone."

He adds that "the more you're prepared to travel in our business, the greater competitive edge you get".

As for technical skills, Scotia Waterous employs about 30 geologists and engineers.

The oil and gas industry "does not lend itself to multiples of Ebitda [earnings before interest, tax and depreciation]", Mr Waterous says. Instead, the emphasis in assessing mergers and acquisitions is on geological and engineering data that play a crucial role in determining the future value of an asset.

"You have to understand the subsurface issues."

Waterous & Co, as it then was, started off focusing on oil and gas deals in Alberta. "What we found was that many of our clients in the early 1990s were foreign companies looking to do transactions in Canada," Mr Waterous recalls.

"Many said to us that if we opened offices in other countries, they would hire us there as well."

The company set up in Houston and London in 1997, and has subsequently expanded to Beijing, Singapore, Latin America and Denver.

About a third of its deals are in Canada, a third in the US and the remaining third elsewhere in the world.

It was sole adviser to Sinopec last year, when the Chinese oil and gas producer bought a 40 per cent stake in Repsol Brazil for $7.1bn.

Mr Waterous sees huge M&A opportunities among national oil companies, especially in Asia, seeking to broaden their horizons.

"They're trying to become supermajors in the course of a single generation," he says.

Scotiabank, Canada's third biggest by assets and the most active outside North America, does not disclose Scotia Waterous's financial performance. All Mr Waterous will say is that "it's worked out very, very well".

Jeff Waterous left the company when Scotiabank bought it in 2005. He now lives in Europe. Adam, 50, says hardly a week goes by without someone asking why he did not follow suit.

"It's a super-exciting, very stimulating business", he says, adding that with his youngest son at the impressionable age of 11, "it's good to get up every day and go to work."