'Ugly storm' hits debut of Kinder Morgan Canada

EDMONTON JOURNAL 31 May 2017

Shares tumble as NDP-Green alliance in B.C. raises expansion concerns

GEOFFREY MORGAN

CALGARY Kinder Morgan Canada's shares tumbled on debut Tuesday amid concerns a British Columbia political alliance could hurt plans to expand the company's pipeline network on the West Coast.

Kinder Morgan Canada shares slid as much as 7 per cent from their listed price of $17 as the company began trading on the Toronto Stock Exchange, with analysts blaming investor reluctance partly on a poorly timed initial public offering that coincided with closely-fought elections in B.C.

"It was a really ugly storm for Kinder to do this in," Canoe Financial portfolio manager Rafi Tahmazian said of the IPO, referring to B.C.'s NDP and Green Party's announcement on Monday that they had agreed to work together to unseat the reigning, energy-friendly Liberals led by Christy Clark. The project also has the backing of Ottawa and the Alberta government.

Both the NDP and the Green Party are opposed to Kinder Morgan's proposed a $7.4 billion Trans Mountain pipeline expansion project between Alberta and B.C.

The company announced last week it would construct the project despite the political climate being "not ideal."

In addition to the political uncertainty, Tahmazian said Houston-based Kinder Morgan Inc.'s plan to use the proceeds of the IPO of its Canadian division to pay down the parent company's debt was not well received by the market. "The thing did not pitch well," he said.

At the same time, environmental activists took their fight against the Trans Mountain expansion to investors in Toronto, with the Dogwood Initiative raising money for geo-targeted mobile ads focused on corporate offices on Bay Street to dissuade investors from buying the stock.

"The message is very clear — Kinder Morgan's project is not going to get built. It's pretty dumb to invest in it," Dogwood Initiative spokesperson Sophie Harrison said.

"Kinder Morgan can try to raise the capital. If they end up with the capital, then good for them but we're giving investors fair warning," Harrison said.

The IPO, underwritten and co-led by TD Securities and RBC Capital Markets, raised $1.75 billion but shares fell as investors fretted over the fate of the newly-minted company's flagship project.

"It got done but it wasn't pretty," Wood Mackenzie analyst Peter Agiris said of the IPO. He added that most investors see the stock as a longer-term holding and, "If you look at other IPOs, it's not uncommon to see a stock trade down."

The underwriters have the option, available for 30 days, to buy a $262 million over-allotment of Kinder Morgan Canada shares.

Barring roadblocks by a potentially new B.C. government, construction on the project is set to begin later in 2017 and the line would begin shipping oil in 2019, delivering an additional 590,000 barrels of oil per day to an export point in Burnaby, B.C.

Major oilsands producers in Alberta, including Suncor Energy Inc. and Canadian Natural Resources Ltd., are committed shippers on the line, which would diversify Canadian oil exports away from its main market in the U.S. and give domestic companies access to growth markets in Asia.

Any delay in the Trans Mountain expansion would be a negative for Kinder Morgan but might provide a boost for rival Enbridge Inc.'s mainline system, according to David Galison, an analyst with Canaccord Genuity.

"Based on the current production forecasts there may not be enough demand for both the Trans Mountain expansion project and TransCanada's Keystone XL project," he said in a note to clients. "New capacity has the potential to put pressure on Enbridge's mainline system, which is the largest exporter of crude out of Canada."

Financial Post
With files from Bloomberg
gmorgan@nationalpost.com
Twitter.com/geoffreymorgan