

Evaluate Energy

Global Upstream M&A Report – Annual 2018



By Eoin Coyne
Senior Analyst, Evaluate Energy

evaluateenergy.com
energyinfo@evaluateenergy.com

Calgary +1 403 269 6003
London +44 (0) 207 247 6120

Upstream oil and gas M&A deals reach \$132 billion in 2018

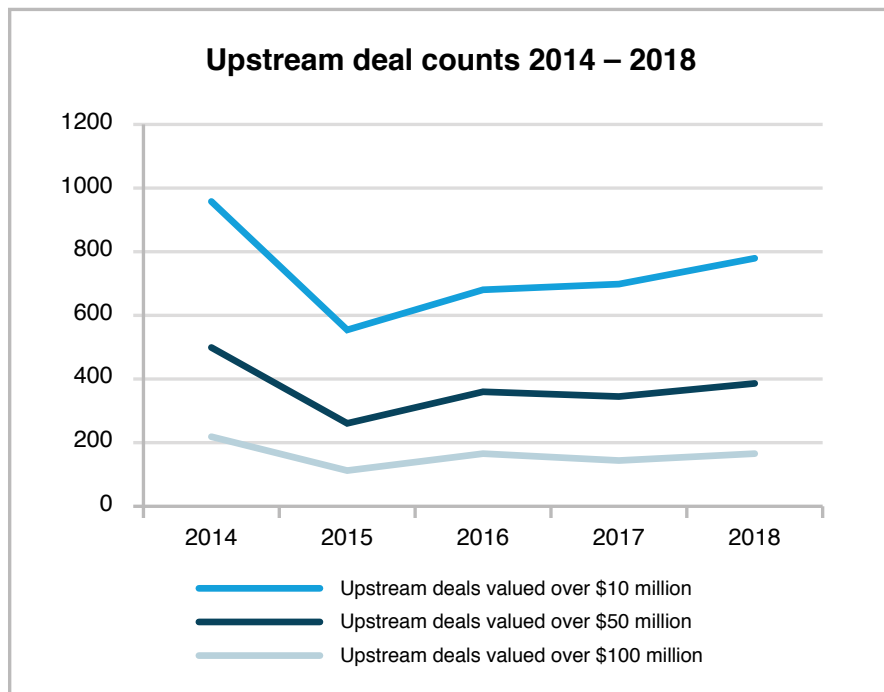
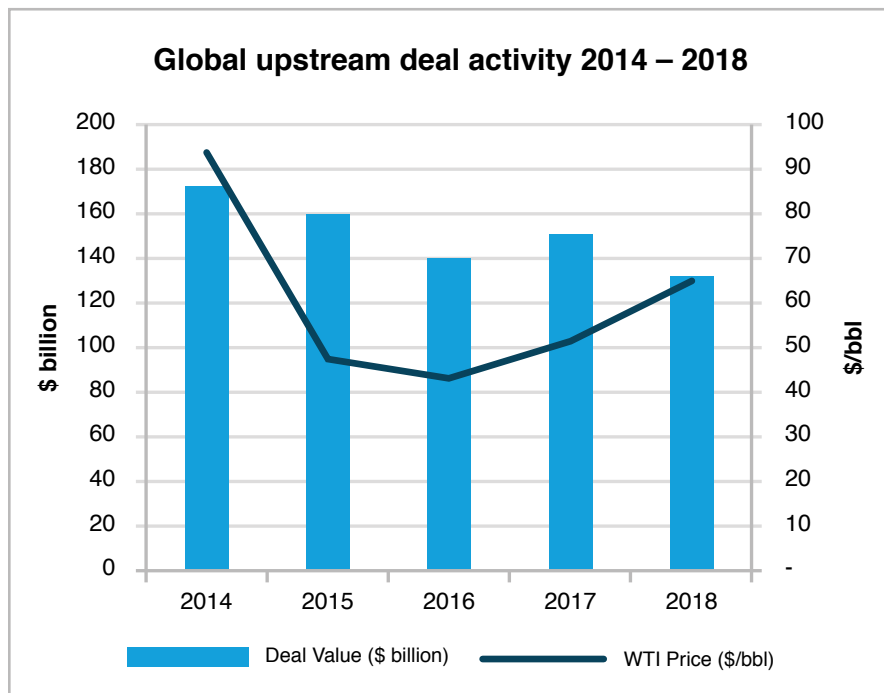
U.S. shines but global values plummet

Despite some positive signs of stability in oil and gas markets during 2018, overall M&A deal spend globally fell to its lowest level in at least a decade.

The value of announced upstream deals totaled \$132 billion; a 12% decline on the \$151 billion recorded the year prior even though oil prices enjoyed their best year since the 2014 price downturn. The WTI price averaged \$65 during 2018, fully 28% higher than the 2017 average price and 51% higher than 2016.

One crumb of comfort was evident in the increased level of underlying M&A activity. The number of 'significant' deals (greater than \$10 million) increased year-on-year by 9.5% and reached its highest level since 2014. Similar increases were evident in the number of deals greater than \$50 million and \$100 million.

As usual, North America dominated global deal values. Just over \$93 billion in new deals were announced in the U.S. and Canada, representing 71% of the global \$132 billion total. The U.S. saw the world's four biggest deals as part of the \$82 billion contributed within the U.S. That's a 24% increase over the \$66 billion in new U.S. deals in 2017.



Source: [Evaluate Energy M&A and Deal Analytics Database](#).

Outlook for 2019

Debt ratios and stable oil prices will be key in 2019

The oil price remains the best single barometer of likely sector confidence and, therefore, likely deal activity – in spite of some evidence to the contrary in 2018.

2019 has not begun terribly well in that regard. While oil spent the majority of 2018 in a relatively comfortable pricing position for producers, it shed 39% of its value between October 2018 and January 2019. That was due to an OPEC production rise. Encouragingly, OPEC's commitment to a stable moderate oil price has been reiterated with a production cut in December 2018. It's our hope – and cautious expectation – that oil will again have a supportive floor of \$50 this year. In anticipation that the oil price in 2019 will broadly match the price in 2018, we expect a similar level of underlying deal activity.

Debt ratios will continue to be a limiting factor, however, in regard to how much each company can invest in merger and acquisition strategies. Using an arbitrary debt-to-capital ratio of 35% as “healthy” and combining this with the latest corporate financial performance data available in Evaluate Energy, it is possible to identify the companies that are currently able to assume the most additional net debt to take advantage of deal opportunities.

Top 10 oil and gas companies – Debt capacity based on latest financial report

Rank	Company Name	HQ Country	Additional Debt Capacity (\$ Billion)
1	Petronas	Malaysia	70.6
2	Sinopec	China	59.6
3	Gazprom	Russia	58.2
4	PetroChina	China	55.4
5	ExxonMobil Corp.	United States	48.5
6	Chevron Corp.	United States	40.4
7	Royal Dutch Shell	Netherlands	38.7
8	Total SA	France	34.4
9	Lukoil	Russia	21.8
10	BP Plc	United Kingdom	20.8

Source: [Evaluate Energy M&A and Deal Analytics Database](#).

Follow **Evaluate**Energy on LinkedIn

Top 10 upstream deals worldwide in 2018

Acquirer	Seller	Brief Description	Total Acquisition Cost (\$ Million)
BP Plc	BHP Billiton	BP Plc acquires 100% of the issued share capital of Petrohawk Energy Corporation, which holds all of BHP Billiton's Eagle Ford, Haynesville and Permian assets	10,500
Concho Resources Inc.	RSP Permian Inc.	Concho Resources Inc. acquires RSP Permian Inc. in an all-stock transaction	9,556
Diamondback Energy Inc.	Energen Corporation	Diamondback Energy Inc. offers to acquire Energen Corporation	9,200
Encana Corp.	Newfield Exploration Company	Encana Corp. acquires Newfield Exploration Company	7,700
Chesapeake Energy Corp.	WildHorse Resource Development Corporation	Chesapeake Energy Corporation acquires WildHorse Resource Development Corporation	3,977
Unspecified	Royal Dutch Shell	Royal Dutch Shell plc divests its stake (7.98%) in Canadian Natural Resources Ltd.	3,300
Magnolia Oil & Gas Corporation	EnerVest Ltd.	EnerVest Ltd. divests its Eagle Ford and Austin Chalk assets to TPG Pace Energy Holdings. (TPG renamed to Magnolia Oil & Gas Corporation upon deal closure)	2,660
Unspecified	Repsol	CaixaBank S.A. divests its 9.36% holding in Repsol S.A. via a disposal programme	2,478
Flywheel Energy LLC	Southwestern Energy Company	Southwestern Energy Company divests its Fayetteville Shale E&P and related midstream gathering assets to Flywheel Energy LLC, a private company backed by Kayne Private Energy Income Funds	2,303
Santos Limited	Quadrant Energy	Santos Limited acquires fellow Australian producer Quadrant Energy	2,150

Source: [Evaluate Energy M&A and Deal Analytics Database](#). Table includes deals that are yet to complete.

Request a Demo of the EvaluateEnergy M&A Product

Deals in the United States in 2018

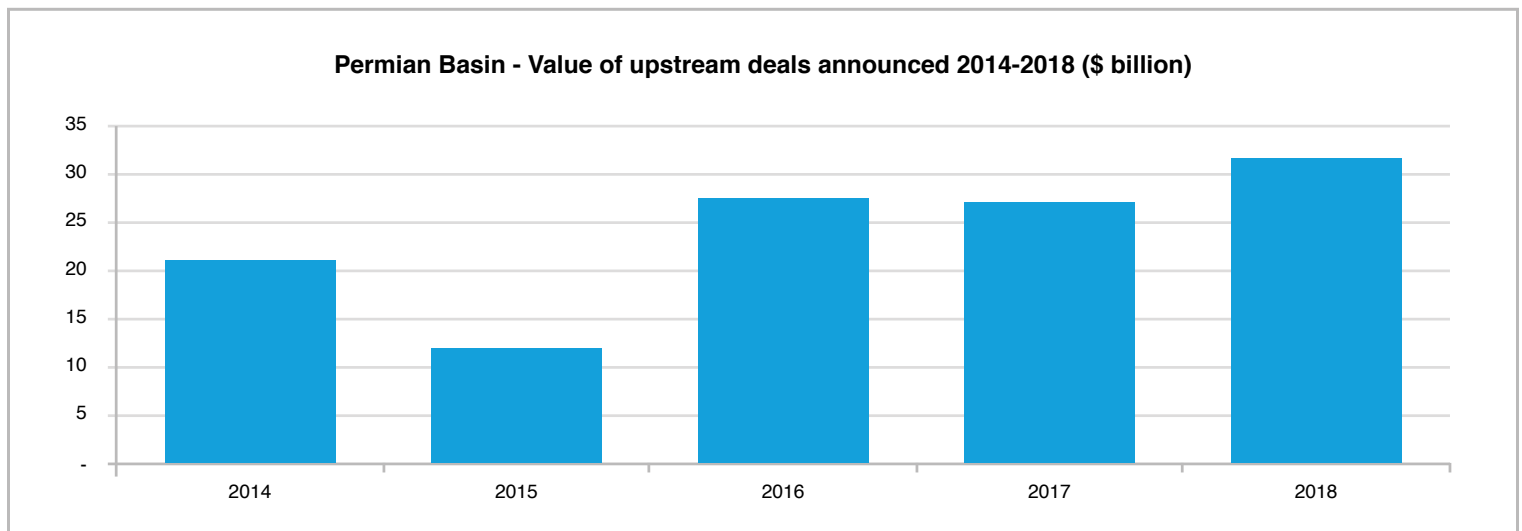
Permian Basin remains prime global acquisition target

BP's deal with Australia's BHP Billiton helped the Permian Basin continue to be the most popular destination for M&A spending during 2018 with \$31.5 billion of deals in the basin being announced during the year. This is the highest ever annual spend in the basin and accounted for 24% of the 2018 global M&A spend.

The three largest deals worldwide during 2018 all involved assets in the Permian. The largest deal of the year saw BHP Billiton end its ill-fated ownership of its Petrohawk and Fayetteville assets in a \$10.8 billion all cash deal with BP and MMGJ Hugoton III. BP acquired all the Petrohawk assets for \$10.5 billion in cash and gained 194,000 acres in the Eagle Ford play, 194,000 in the Haynesville play and 83,000 acres in the Permian. BP will benefit from a 190,000 boe/d production rate and additional upside associated with a set of reported 5,500 drilling locations, the majority of which lay within the Permian. To help finance the deal and assist in redirecting capital towards the acquired Permian and Eagle Ford acreage, BP plans to divest up to \$6 billion of assets, half of which consist of U.S. onshore assets.

The next largest deal saw Concho Resources Inc. acquire RSP Permian Inc. for \$9.5 billion including the assumption of debt. The deal was structured as an allstock transaction and the aim of the combination was for the stakeholders of both parties to benefit from the increased scale and synergies of a larger pure play Permian company. Despite Concho being just 14 years old, upon closure of the deal the company attained a U.S. production base larger than industry veterans Apache Corp. and Marathon Oil Corp.

The third largest Permian deal this year saw Diamondback Energy Inc. acquire Energen Corp. for \$9.2 billion, including the assumption of debt. Energen was already facing pressure from shareholders earlier in the year to explore a potential sale of the company and this aided the deal being struck at a relatively low premium of 19% to Energen's trading price at the time of the deal. The acquisition was an all-stock deal and increased Diamondback's Permian production by 72% and its drilling inventory by 123%.



Source: [Evaluate Energy M&A and Deal Analytics Database](#).

Deals in the United States in 2018

Eagle Ford achieves largest ever annual spend

The Eagle Ford shale play in Texas also had a very active year for M&A, which resulted in a record annual spend. A total of \$15 billion was spent on upstream M&A transactions in the Eagle Ford during 2018. This marks an increase of 185% over the spend in 2017 and 55% over the previous highest annual spend (\$10 billion) in 2014.

The largest contribution to the 2018 figure was the Eagle Ford portion of BP's \$10.5 billion deal with BHP Billiton, for which half of the acquired production came from the Eagle Ford play. The next largest contribution came from Chesapeake acquiring WildHorse Resource Development Corp for \$4 billion in a move that aligns with its strategy to transition to a greater oil-weighted portfolio. EnerVest sold

its Eagle Ford assets to a special purpose vehicle called TPG Pace Energy Holdings (now renamed as Magnolia Oil & Gas Corporation) for \$2.66 billion. Magnolia subsequently also acquired Harvest Oil & Gas Corp's Eagle Ford assets for \$190 million. In a similar deal, Osprey Energy Acquisition Corp (renamed as Falcon Minerals Corporation) was another special purpose vehicle to enter the play in a \$788 million deal with Royal Resources, a private company backed by Blackstone. Denbury Resources also made its entrance into the play during 2018 via the acquisition of Penn Virginia for \$1.7 billion.

New U.S. data now available

Related product updates

Coverage of the U.S. oil and gas sector in the Evaluate Energy database has recently been boosted with the addition of three new products: Financings, Hedging and Guidance.

Financings

The latest Capital Raisings by U.S.-listed E&P companies. Data includes private placements and prospectus offerings for equity and debt raisings.

[Learn More](#)

Hedging

Essential hedging contract data for every publicly traded E&P company in the U.S. and Canada. Data includes hedged production and hedging prices per contract, contract types, contract dates and the benchmarking index.

[Learn More](#)

Guidance

The latest corporate guidance of publicly-listed E&P companies in the U.S. and Canada. Data includes production, operating expenses, capital budgets and drilling plans.

[Learn More](#)

Evaluate Energy

Deals in the United States in 2018

Encana acquires largest producing portfolio for a single deal this year

The largest U.S. deal in 2018 away from the Permian Basin was announced in November as Encana agreed to acquire Newfield Exploration Company for \$7.7 billion. Encana will be gaining 199,000 boe/d of production (79% oil and liquids), the majority of which comes from the Anadarko Basin in Oklahoma, where the company will enjoy a large 360,000 net acre position over the oil-rich STACK and SCOOP formations. This makes the deal the largest of the year in terms of production acquired, based on publicly available data on upstream deals announced in 2018.

In other U.S. news for Encana, the company also completed the \$480 million sale of its San Juan Basin assets to privately-held DJR Energy LLC this year, which was

announced in October. These assets produced 5,400 boe/d (72% oil and liquids).

Encana will follow the Newfield acquisition with a \$1.25 billion share buyback and a 25% increase in its dividends in an effort to return capital to shareholders.

[New analysis from the U.S. EIA](#) shows that free cash flow – the difference between operating cash flow and capital spending – is growing for energy companies around the world, with other uses of cash such as debt repayment or, as Encana is doing here, share buybacks and dividend increases coming to the fore at the expense of capital budgets. [Click here for more information.](#)

Top 5 upstream deals worldwide in 2018 by production acquired

Acquirer	Seller	Brief Description	Production Acquired (boe/d)
Encana Corporation	Newfield Exploration Company	Encana Corporation acquires Newfield Exploration Company	199,000
BP Plc.	BHP Billiton	BP Plc acquires 100% of the issued share capital of Petrohawk Energy Corporation, which holds all of BHP Billiton's Eagle Ford, Haynesville and Permian assets	190,000
Vitol	Petrobras	Vitol acquires a 50% interest in a wholly-owned Nigerian subsidiary of Petrobras	184,000
Wintershall DEA	DEA Deutsche Erdoel AG	BASF and LetterOne merge their oil and gas businesses to create Wintershall DEA	125,000
Unspecified	EOG Resources Inc.	EOG agrees the sale and exchange of properties in the Rocky Mountain area	112,500

Source: [Evaluate Energy M&A and Deal Analytics Database.](#)

**CORPORATE
GUIDANCE** **2019**
DOB

Free Consolidated Guidance Data

Take a 14-Day DOB Trial!

Deals in Canada in 2018

Consolidation continues in the Canadian oilsands sector

Husky Energy Inc. launched a \$4.9 billion hostile bid to acquire MEG Energy Corp. Husky's C\$11 per share proposal offered a 37% premium to the trading price of MEG Energy as of the day of the public offer. This was promptly rejected by MEG's board of directors as they believed MEG was undervalued by the market. Since this time, however, oil prices have dropped by approximately 30% and the share price of MEG's peers has dropped by 20%, which some thought increased the likelihood of the offer succeeding. At C\$11 per share, the deal would have been the fourth largest in the Canadian oilsands sector since the start of 2014. The deal was cancelled by Husky in early January. In response, its share price rose immediately by 13%, showing that Husky's shareholders were not enamoured with a deal taking place in the current pricing environment.

Other notable deals in Canada included Shell's \$3.3 billion divestment of its inventory of Canadian Natural Resources'

stock and two other \$1 billion-plus corporate acquisitions focused on Saskatchewan.

Shell's motivation to divest the stock was partly to contribute to the necessary reduction in debt following the acquisition of BG in 2015. The deal also helps Shell achieve their stated target of reducing CO² emissions by 50% by 2050, as this divestment represents a further move away from the carbon intensive oilsands sector.

The two other \$1 billion-plus deals in Canada of over \$1 billion both involved the Saskatchewan Viking play. Baytex Energy Corp. acquired Raging River Exploration Inc. for \$1.5 billion and Vermilion Energy Inc. acquired Spartan Energy Corp. for \$1.1 billion. Latest guidance figures for Baytex and Vermilion – [available in a weekly package from the Daily Oil Bulletin here](#) – show that the two companies expect production to increase by 19.5% and 17.6% in 2019, respectively, compared to 2018.

Top 5 oilsands sector M&A deals since Jan. 1, 2014 including Husky's terminated bid for MEG

Acquirer	Seller	Brief Description	Total Acquisition Cost (C\$ Billion)
Cenovus Energy Inc.	ConocoPhillips	Cenovus Energy Inc. acquired ConocoPhillips' 50% interest in the Foster Creek Christina Lake (FCCL) oilsands partnership and Deep Basin assets	16.8
Canadian Natural Resources Limited	Shell Canada Limited	Canadian Natural Resources Limited acquired Royal Dutch Shell's entire 60% interest in AOSP and other oilsands assets	10.9
Suncor Energy Inc.	Canadian Oil Sands Ltd.	Suncor Energy acquired Canadian Oil Sands Ltd.	7.3
Husky Energy Inc.	MEG Energy Corp.	Cancelled: Husky Energy Inc. begins takeover bid for MEG Energy Corp.	6.4
Canadian Natural Resources Limited & Royal Dutch Shell	Marathon Oil Corporation	Marathon Oil Corporation sold a 10% stake each in the AOSP to Canadian Natural Resources Limited and Royal Dutch Shell.	3.2

Source: [Evaluate Energy M&A and Deal Analytics Database](#).

Major International Deals in 2018

A quiet year outside of North America

There were \$39 billion of deals outside of North America recorded during the year, which accounts for 28% of the total global value. This is steeply down on the average portion of deals observed in the previous five years of 46% of the global total. The largest international upstream asset deal of the year came from Santos Ltd. acquiring fellow Australian company, Quadrant Energy, for \$2.15 billion. Noreco acquired a 36.8% interest in the Danish Underground

Consortium from OMV for \$1.9 billion. There were also a large number of deals in the United Arab Emirates involving the issuance of stakes in PSCs for various fields by the UAE government. In total, these deals generated \$7.5 billion and involved OMV, Mubadala, Total, CNPC, ENI, Inpex, ONGC, Bharat and Indian Oil Corp gaining additional stakes in UAE fields.

OMV ends a very busy 2018 with UAE acquisition

Austria's OMV was one of the more active companies around the world in the upstream oil and gas M&A space in 2018. The company agreed eight separate deals this year, five of which were acquisitions totalling \$2.9 billion in reported value. The largest acquisition was valued at \$1.5 billion and involved the purchase of a 20% interest in the offshore oil fields Satah Al Razboot and Umm Lulu from Abu Dhabi

National Oil Company (ADNOC). In late December, OMV completed another deal with ADNOC for a 5% stake in the Ghasha offshore concession. The terms of this latest deal were undisclosed. Other OMV acquisitions this year included an \$800 million purchase of a 50% interest in a subsidiary of Malaysia's Sapura Energy and a \$578 million acquisition of Royal Dutch Shell's New Zealand business unit.

Equinor makes another Brazilian acquisition

Norway's Equinor ASA agreed another significant deal in Brazil this year. The company is acquiring a further 10% stake in the BM-S-8 licence in the Santos Basin for \$379 million from Barra Energia. Upon closing, Equinor intends to sell down 3.5% to ExxonMobil and 3% to Portugal's Galp Energia, so fully aligning interests across BM-S-8 and Carcará North. Equinor will be the operator of both assets with a 40% stake. ExxonMobil and Galp Energia will hold 40% and 20% interests in the assets, respectively. Outside of bidding rounds, Equinor will have invested \$5.3 billion into

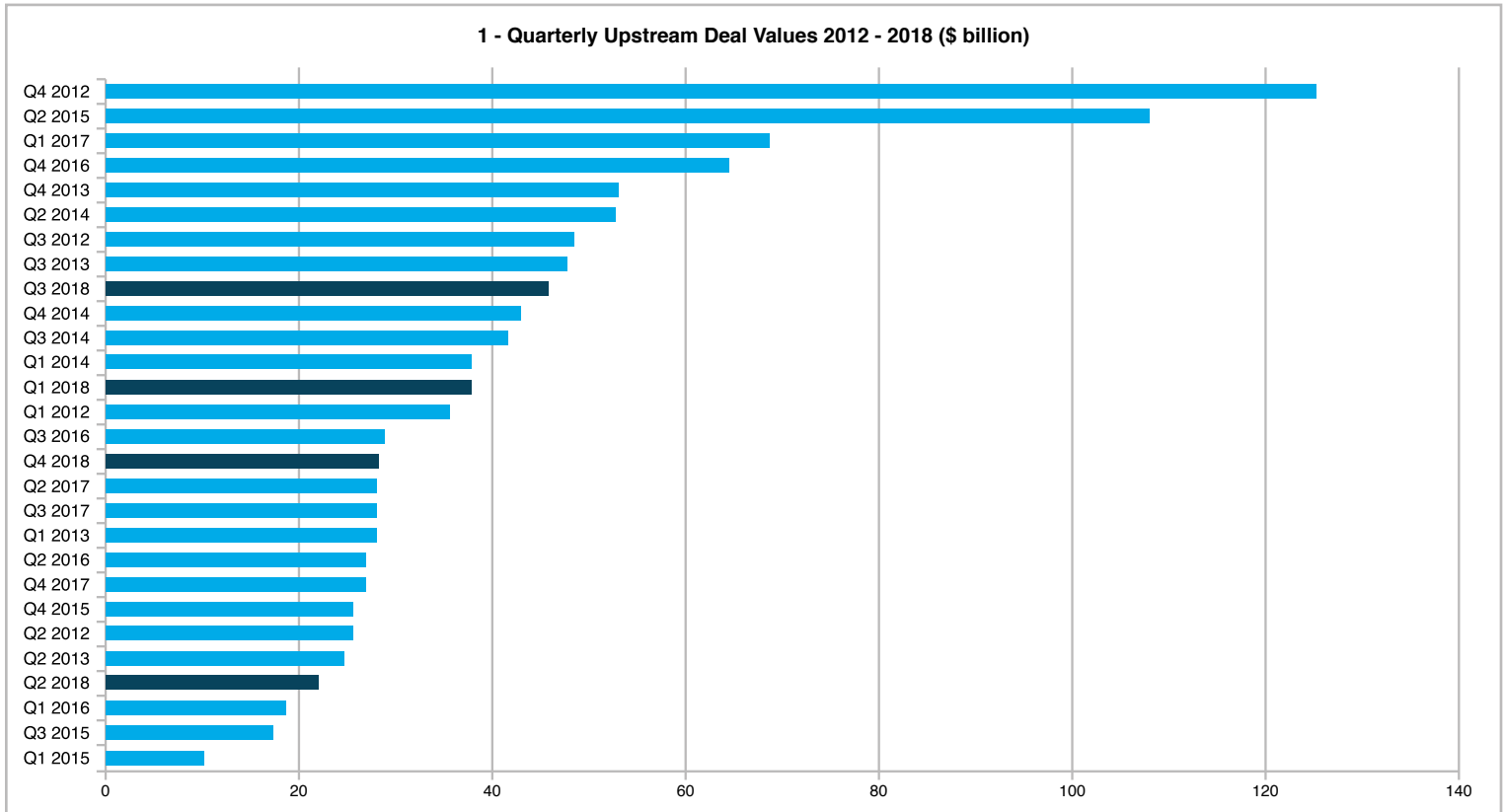
Brazilian asset acquisitions since the second half of 2016 when this latest agreement reaches completion.

Away from Brazil, Equinor had a busy year of trimming its portfolio in the offshore industries in Norway and the UK. Equinor agreed deals with Poland's PGNiG (\$220 million), Norway's Aker BP (\$250 million) and Sweden's Lundin Petroleum (terms undisclosed) in Norway, while also agreeing a deal in the UK Continental Shelf to sell a 17% non-operated interest in the Alba discovery for an undisclosed consideration to Verus Petroleum.

M&A in 2018 – Activity Overview

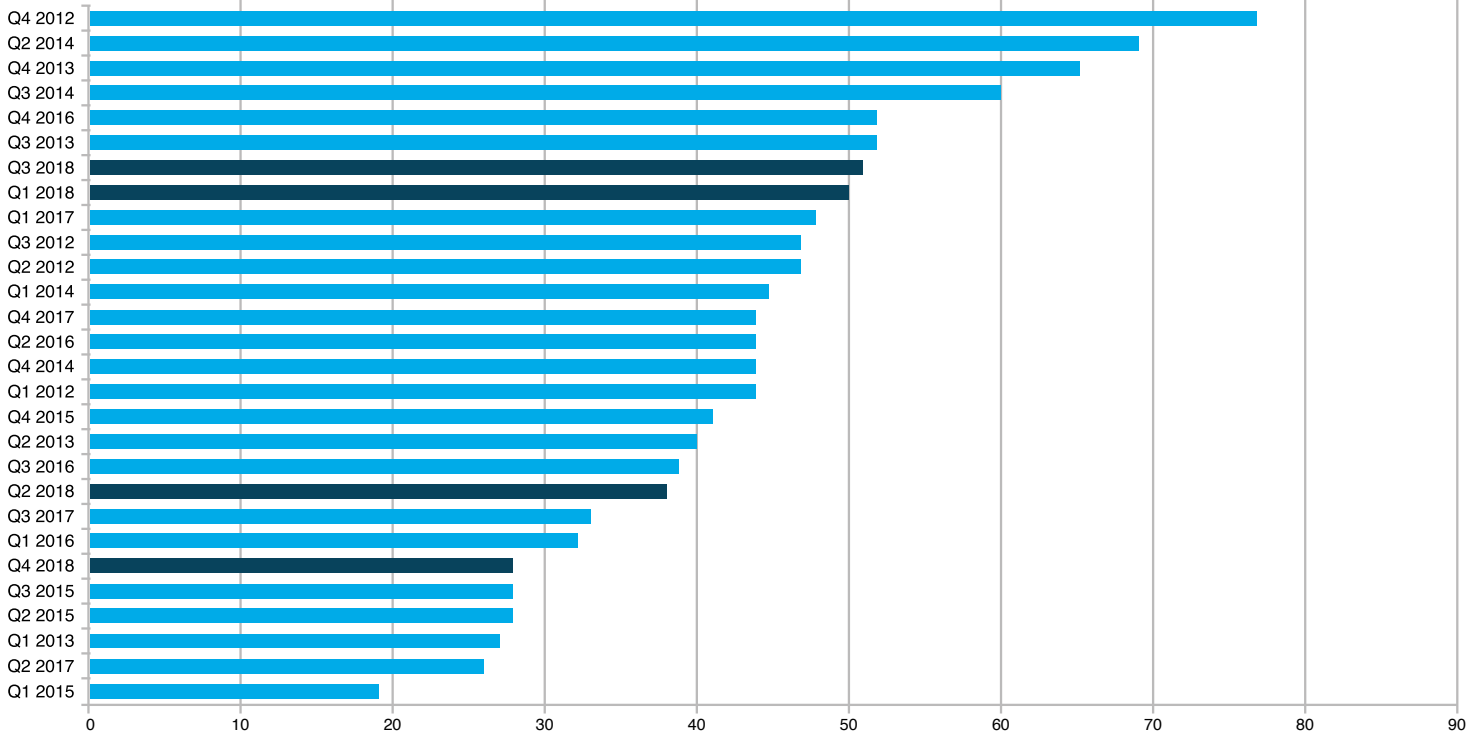
Chart	Title	Description	Analysis
1	Quarterly Upstream Deal Values 2012 - 2018 (\$ billion)	The total value of deals in the global upstream sector by quarter.	Q3 2018 saw the largest overall M&A spend in the upstream sector in 2018 at around \$45 billion. Every other quarter in 2018 was below the \$41 billion quarterly average seen since 2012.
2	Number of deals over \$100 million, 2012-2018	The total number of deals announced in each quarter that were agreed for a value greater than \$100 million.	Only five quarters since the start of 2012 had fewer deals valued at over \$100 million than Q4 2018. Conversely, only six quarters had more +\$100 million deals than Q3 2018.
3	Deals over \$100 million 2012-2018 - Oil weighted assets vs Gas weighted assets	Analysis of how many (%) of the deals in each quarter with a value of over \$100 million were targeting oil-focused assets and gas-focused assets.	No quarter since the start of 2012 had a greater percentage of deals valued at over \$100 million targeting oil-weighted assets than Q4 2018 (87%).
4	Number of deals over \$50 million, 2012-2018	The total number of deals announced in each quarter that were agreed for a value greater than \$50 million.	Q1 and Q3 2018 saw the fifth and sixth most deals announced with a value of over \$50 million since the start of 2012, respectively, while only one quarter saw fewer such deals than the 34 recorded in Q4 2018.
5	Deals over \$50 million 2012-2018 - Oil weighted assets vs Gas weighted assets	Analysis of how many (%) of the deals in each quarter with a value of over \$50 million were targeting oil-focused assets and gas-focused assets.	No quarter since the start of 2012 had a greater percentage of deals valued at over \$50 million targeting oil-weighted assets than Q4 2018 (88%).

Note for all charts in this section: Data sourced from [Evaluate Energy M&A and Deal Analytics Database](#). The charts only refer to deals announced before the end of each quarter.

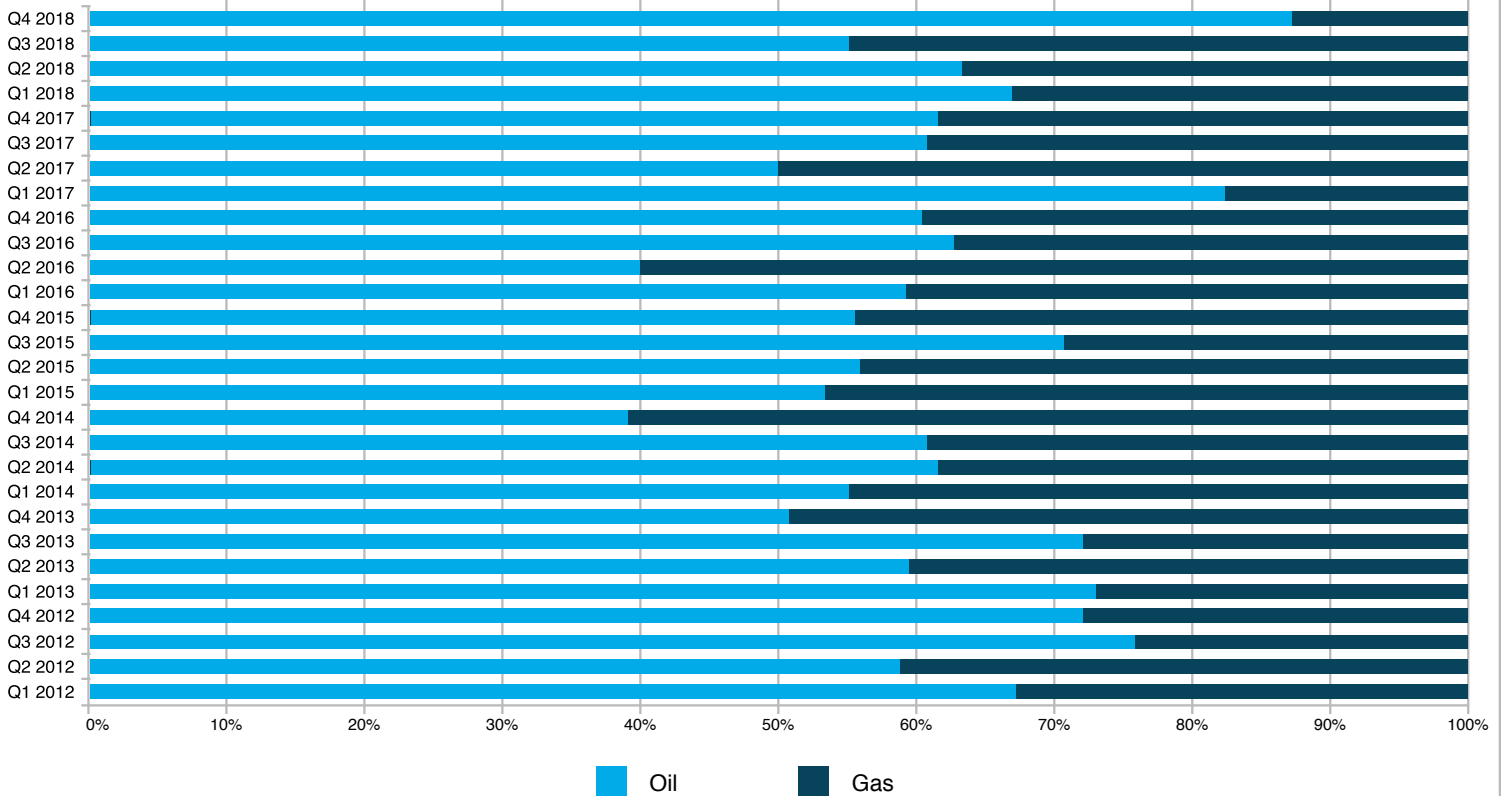


M&A in 2018 – Activity Overview

2 - Number of deals over \$100 million, 2012-2018

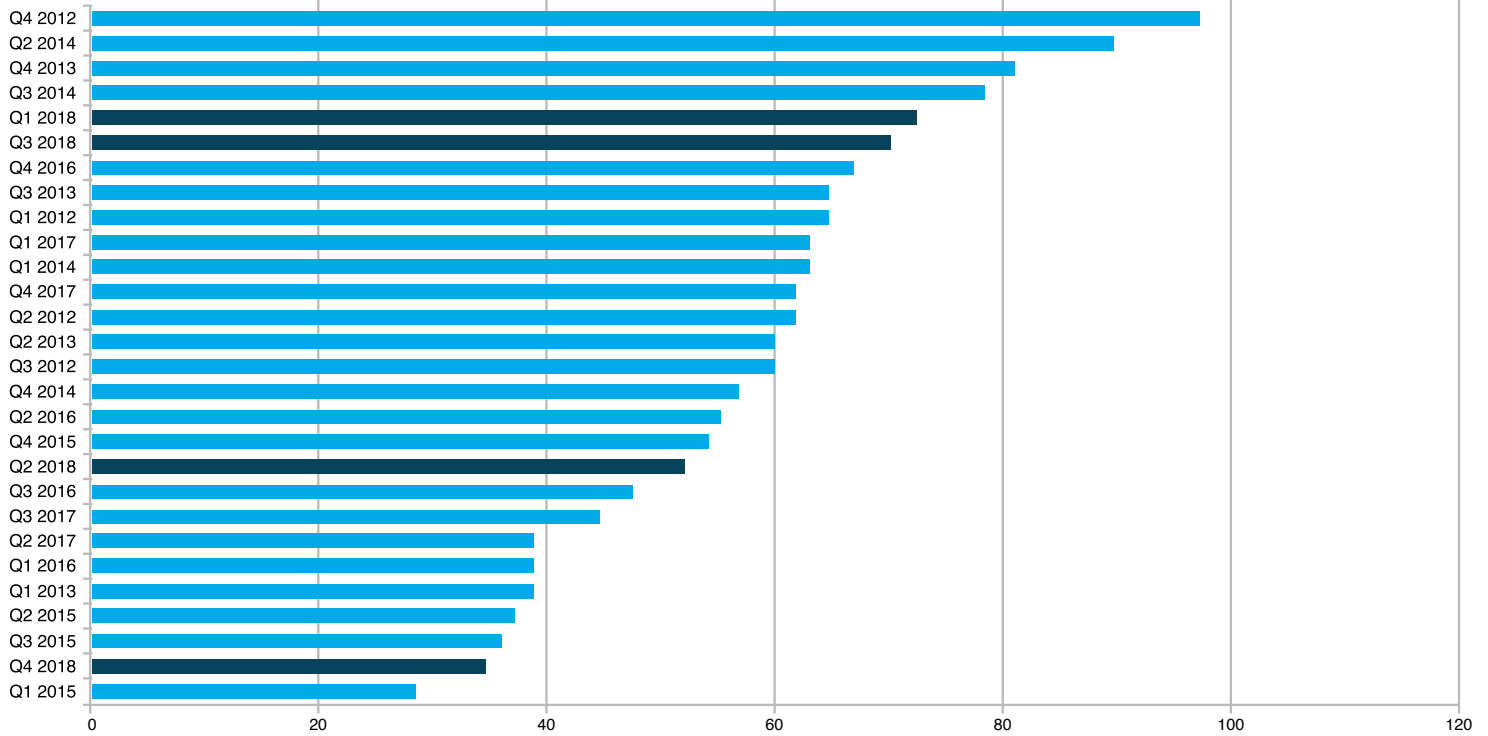


3 - Deals over \$100 million 2012-2018 – Oil-weighted assets vs Gas-weighted assets

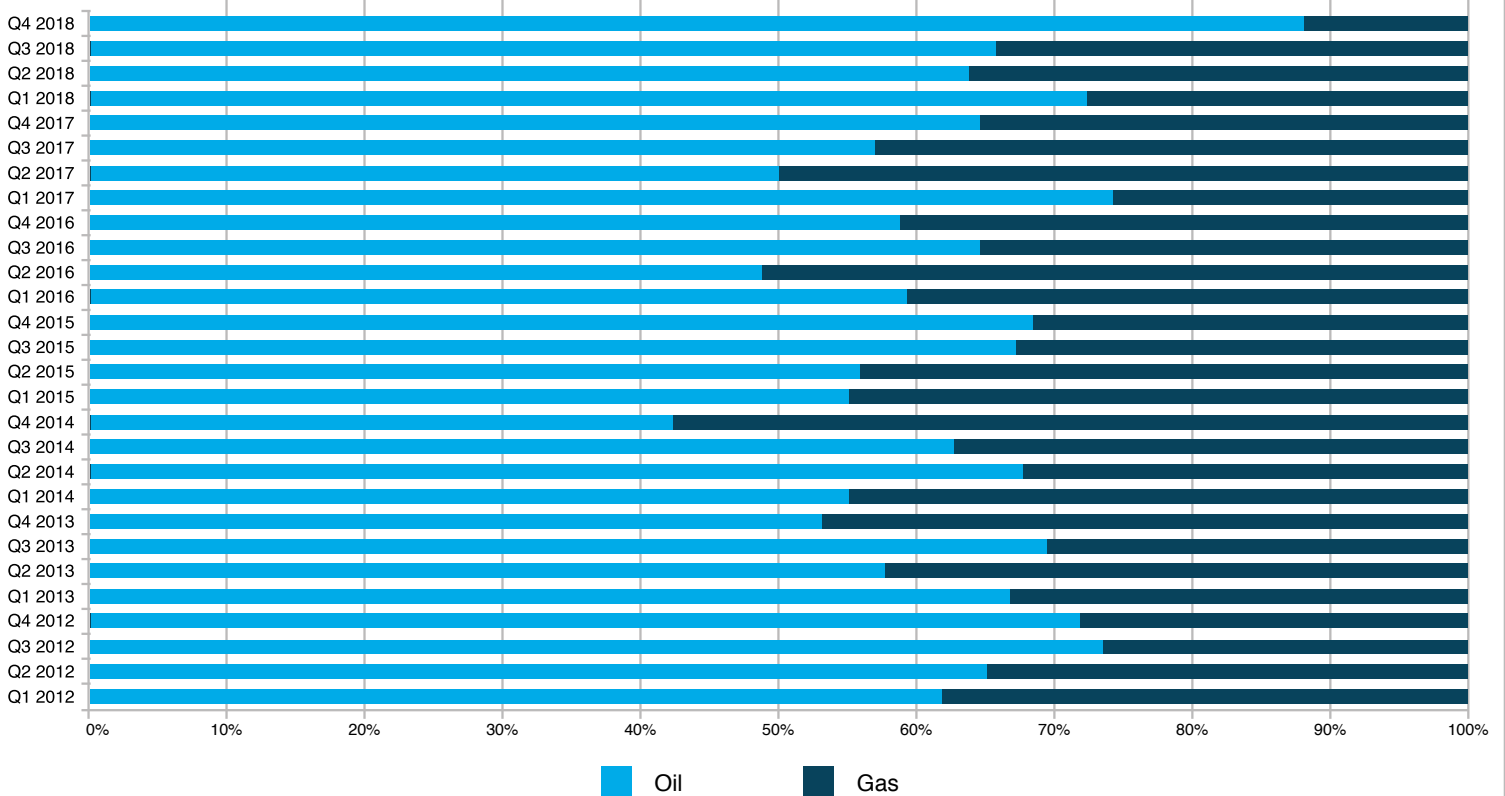


M&A in 2018 – Activity Overview

4 - Number of deals over \$50 million, 2012-2018



5 - Deals over \$50 million 2012-2018 - Oil weighted assets vs Gas weighted assets



Benefits of an

EvaluateEnergy

M&A Subscription

- View comparable precedent deals by play, basin, resource type and country
- Stay informed on new deals involving a company, peer group or in a specific region via email alert
- Compare \$/boe trends by company, ownership type or region
- Normalized Deal Values allows you to compare \$ per 1P, 2P or BOE values on a like-for-like basis with all non-upstream values removed
- Save huge amounts of time and effort spent on oil and gas M&A data collection and analysis

[Request a Demo](#)

of the EvaluateEnergy M&A Product

Evaluate Energy

Global Upstream M&A Report – Annual 2018
By Eoin Coyne, Senior Analyst, Evaluate Energy

evaluateenergy.com
energyinfo@evaluateenergy.com

Calgary +1 403 269 6003
London +44 (0) 207 247 6120