

Evaluate Energy

Global Upstream M&A Report – Q1 2019



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Global upstream oil and gas M&A deals only reach \$9.8 billion in dismal Q1 2019

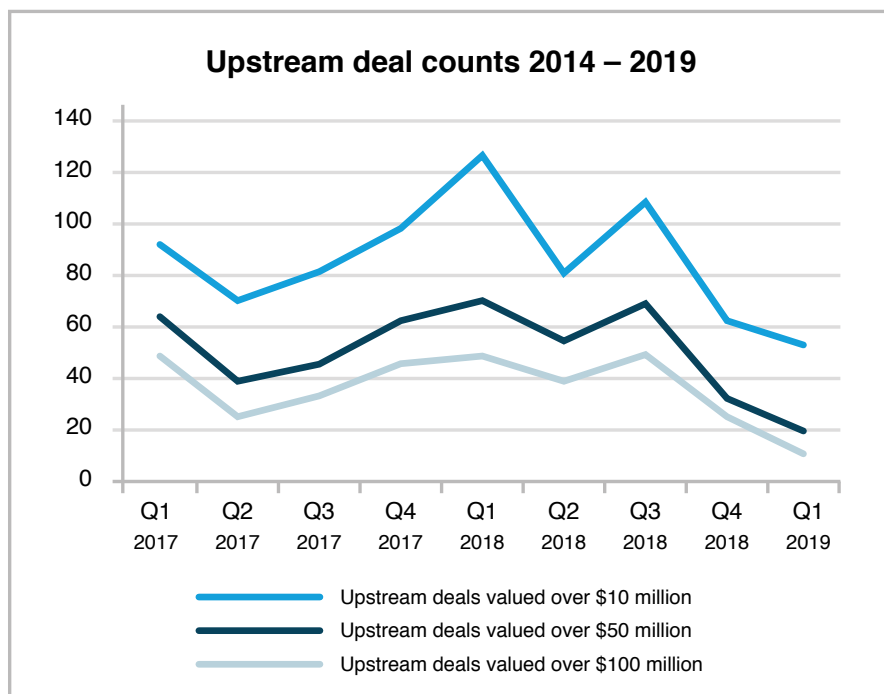
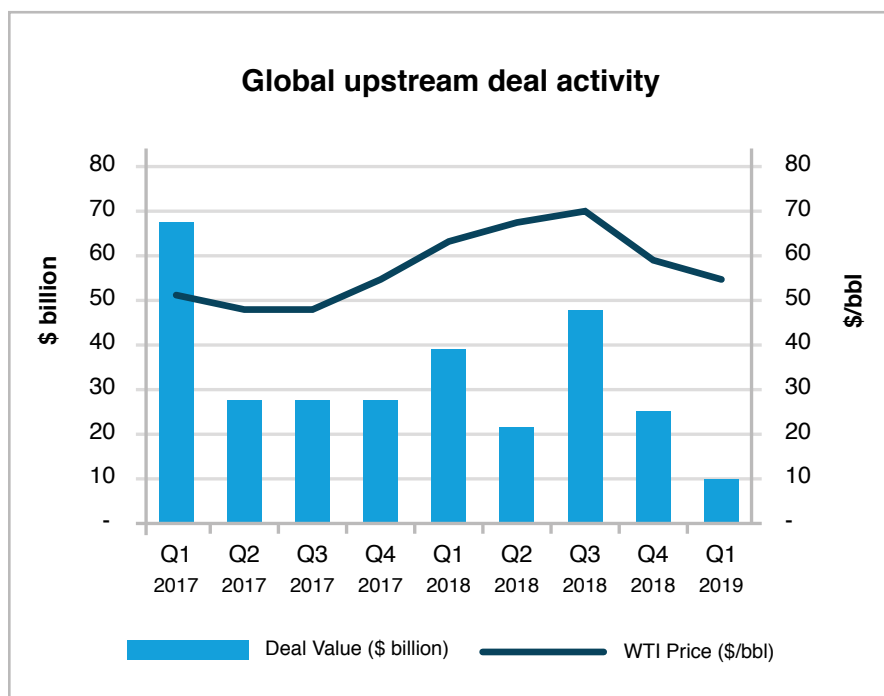
Deals total lags due to low oil price

Just \$9.8 billion of new upstream oil and gas M&A deals were agreed during the first quarter – a 61% drop on spending in Q4 2018 and a 75% drop compared with Q1 2018. Low oil prices and changing spending priorities were the two main causes.

Assets in the United States attracted the bulk of activity, accounting for 60% – or \$5.9 billion – of global upstream spending. Nonetheless, this was still the lowest spend on U.S. upstream assets since Q1 2015 and a 67% drop from the \$17.7 billion recorded in Q4 2018.

This U.S. total for Q1 2019 includes a \$3.8 billion offer made by a hedge fund to acquire a Permian Basin producer that is just one option being considered by the target company. If this deal comes to nothing, Q1 2019 would be the worst individual quarter for U.S. deal-making over the last 10 years.

Global deal counts were also significantly down. Q1 2019 saw only 53 deals for upstream assets with a value greater than \$10 million, down from an average of 95 per quarter in 2018. Moreover, there were only 11 deals this quarter with a value greater than \$100 million compared to an average per quarter of 41 in 2018.



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

Explaining the low global spend

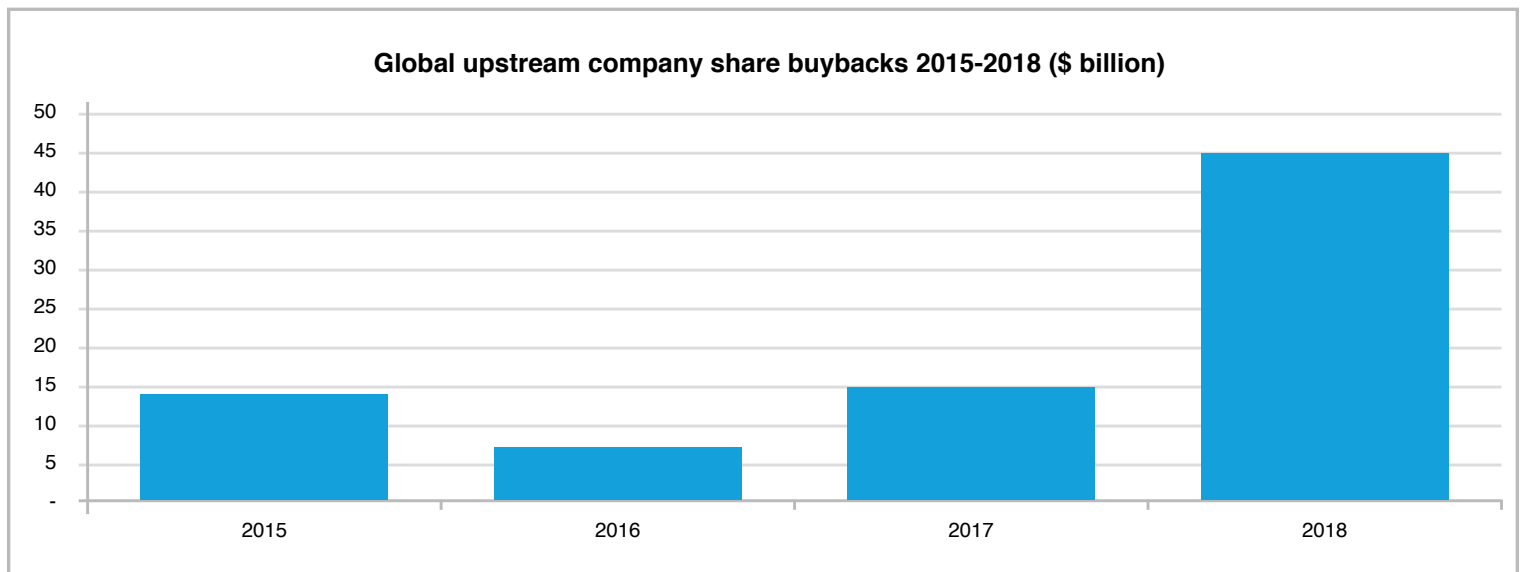
Low oil prices and little appetite for risk

This significant fall in activity can be attributed to two main factors: the low oil price prevalent during the quarter and a low threshold for risk among investors.

The first quarter arrived in the wake of a \$30 per barrel slide in the WTI oil price over the previous three months of Q4 2018. Q4 2018 was also the most volatile quarter for the oil price (as measured between the maximum and minimum price during the period) since 2014. This volatility, and an oil price of \$46 at the start of Q1 2019, meant many companies were hesitant to expand operations. The oil price steadily increased to \$60 by the end of the quarter, but the lag affect for a company deciding upon and then executing on a strategy meant that the increase came too late to have an impact on deal-related spending.

The other main factor to affect M&A expenditure has been the trend for companies to direct funds to improving balance sheets and returning value to shareholders, illustrated by the financial accounts for the latest reporting period of year-end 2018.

Based on data from Evaluate Energy for 270 oil and gas companies around the world that have reported their annual figures, we have witnessed an \$81 billion reduction of debt and \$45 billion of share buybacks during the fiscal 2018 period. This share buyback total during 2018 is larger than the combined total of the previous three years between 2015 and 2017.



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

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Top 10 upstream deals worldwide in Q1 2019

Acquirer	Seller	Brief Description	Total Acquisition Cost (\$ Million)
Elliott Capital Advisors LP	QEP Resources Inc.	Elliott Capital Advisors LP makes offer to acquire QEP Resources Inc.	3818
PTTEP	Murphy Oil Corp.	PTTEP acquires Murphy Oil Corp.'s Malaysian oil and gas business	2127
PT Medco Energi	Ophir Energy Plc	PT Medco Energi agrees deal to acquire Ophir Energy Plc	444
Diversified Gas & Oil Plc	HG Energy II Appalachia LLC	Diversified Gas & Oil Plc acquires producing Pennsylvania and West Virginia gas assets in the Appalachian Basin	400
PetroRio SA	Chevron Corp.	PetroRio SA acquires 51.74% and 50% operated interest in Brazil's Frade Field and the deepwater CE-M715 Block, respectively, from Chevron Corp.	302
Ring Energy Inc.	Wishbone Energy Partners LLC	Ring Energy, Inc. acquires North Central Basin Platform assets located in New Mexico from Wishbone Energy Partners LLC	300
Unspecified	WPX Energy Inc.	WPX Energy Inc. divests its non-core Nine Mile Draw E&P assets in Reeves County, Texas, and a 20% interest in the Agua Blanca natural gas pipeline	200
Kimbell Royalty Partners LP	EnCap Investments LP	Kimbell Royalty Partners LP acquires certain oil and gas royalty assets from EnCap Investments LP	151
RockRose Energy Plc	Marathon Oil Corp.	Marathon Oil Corp. divests its UK businesses, Marathon Oil U.K. LLC and Marathon Oil West of Shetland Limited, to RockRose Energy PLC	140
Unspecified	Noble Energy Inc.	Noble Energy Inc. divests certain proved and unproved non-core acreage in Reeves County, Texas	132

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

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Deals in North America in Q1 2019

Elliott Management Corporation bids for QEP Resources Inc.

The largest offer during the quarter saw hedge fund Elliott Management Corp. seek to acquire QEP Resources Inc. for \$3.8 billion including the assumption of debt. QEP neither accepted nor refused the bid and, in February, the company launched a strategic alternatives review to assess a variety of options including Elliott's proposal. At the time of the offer, the proposal of \$8.75 per share represented a 44% premium on the trading price of QEP.

Since then, the WTI oil price increased from \$49 to \$63 per barrel and the share price of QEP's peer group increased by 20%. Applying this same increase to QEP's share price means that the offer would still represent an approximate premium of 20%. Should the offer eventually be accepted, Elliott will be acquiring 475 million boe of proved reserves for \$8 per boe, the majority of which lies within the Permian Basin.

Diversified Gas & Oil PLC acquires Appalachian Basin assets

Diversified Gas & Oil continued its fast growth strategy with a further \$400 million acquisition of Appalachian assets in Pennsylvania and West Virginia. During 2017, Diversified was producing just 6,600 boe/d. Several transactions later,

including the 20,700 boe/d acquired in this latest deal, Diversified now produces 90,700 boe/d. Diversified will fund the consideration in part via a further draw on the company's credit facility and partly via a \$225 million share offering.

All Diversified Gas & Oil Plc acquisitions since Jan 1, 2017

Date Announced	Selling Company	Brief Description	Total Acquisition Cost (\$ Million)
Mar 1, 2019	HG Energy II Appalachia LLC	Producing Pennsylvania and West Virginia gas assets	400.0
Oct 11, 2018	Core Appalachia Holding Co LLC	Acquisition of Core Appalachia Holding Co LLC from TCFII Core LLC	178.9
Jun 14, 2018	EQT Corp.	A network of gas and oil producing assets in the Appalachian Basin	575.0
Jan 31, 2018	Alliance Petroleum Corp.	Acquisition of Alliance Petroleum Corp., previously a subsidiary of Lake Fork Resources Acquisition Corp.	95.0
Jan 31, 2018	CNX Resources Corp.	11,000 producing, operated wells in the Appalachian Basin, mainly located in Pennsylvania and West Virginia	85.0
Dec 1, 2017	NGO Development Corp. Inc.	550 wells in Central Ohio	3.1
May 5, 2017	Titan Energy LLC	Ohio, Pennsylvania, New York and Tennessee Appalachian Basin assets	84.2
Feb 24, 2017	Unspecified	Producing wells in Ohio and Pennsylvania	1.8

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

Deals in North America in Q1 2019

Ring Energy Inc. acquires North Central Basin Platform assets

Ring Energy acquired the assets of privately held Wishbone Energy, located in the San Andres play in the Permian Basin, for \$300 million. Ring Energy reports that the deal would

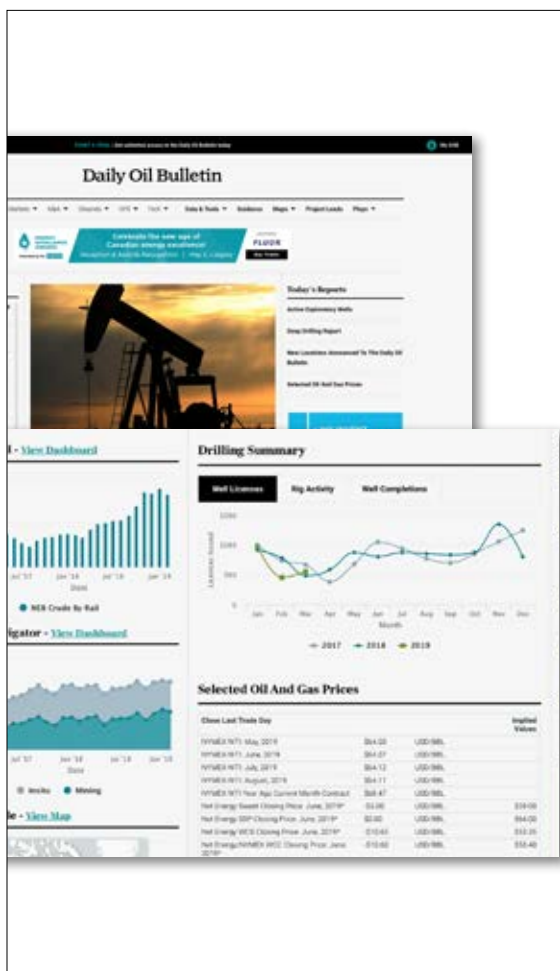
double production, reserves and EBITDA with 6,000 boe/d of production and 34 million boe of proven reserves being acquired.

Canadian deal making grinds to a halt

Canadian M&A in the upstream sector hit record lows in Q1 2019, with only \$30 million in new deals agreed over the entire three month period. Even in a turbulent period for Canadian upstream companies that saw government-enforced production curtailments for the country's largest producers, continued issues with pricing differentials and a low oil price, a drop in deal activity to this degree is stunning. By comparison, average quarterly M&A-related spending in

the Canadian upstream sector in 2018 was \$2.7 billion.

Unsurprisingly, the biggest individual deal story in such an uneventful period was a terminated deal, as Husky Energy Inc. pulled out of a bid to acquire MEG Energy Corp. for C\$11 per share in early January. In response, Husky's share price immediately increased by 13%, indicating that Husky shareholders were not particularly enthused by the deal.



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Major International Deals in Q1 2019

PTTEP acquires Murphy Oil's Malaysian business

The second largest deal of the quarter came from Thailand's PTTEP and Murphy Oil Corp. striking a deal at \$2.1 billion for all Murphy operations in Malaysia. PTTEP will be acquiring 129 million boe of proven reserves that are expected to generate \$475 million of EBITDA during 2019, which equates to an EBITDA multiple of 4.5x. Murphy reported that the

proceeds from the all-cash transaction would fund a \$750 million reduction in debt, a \$500 million share repurchase program and the remaining \$750 million would remain as cash on the balance sheet, available for a potential oil weighted acquisition.

PT Medco Energi agrees deal for Ophir Energy Plc

Following an initial 48.5 pence per share offer that was rejected in January, Indonesia's PT Medco Energi succeeded in reaching a deal with the board of Ophir Energy Plc to acquire the UK-based, Southeast Asia producer for 57.5 pence per share. The offer equates to a cash offer of \$519

million but PT Medco will benefit from the \$75 million of excess cash over debt that Ophir Energy held on its balance sheet as per its latest financial report. PT Medco will be acquiring 29,700 boe/d of production located in Indonesia, Vietnam and Thailand.

PetroRio SA acquires Brazilian assets from Chevron

Brazil's PetroRio SA reached a deal with Chevron to acquire a further 51.74% interest in the producing Frade field located offshore Brazil and a 50% interest in exploration block CE-M715 for \$302 million. The deal will significantly bolster

PetroRio's production with an increase of 11,000 boe/d. PetroRio was producing at a rate of 13,000 boe/d during Q4 2018.

Marathon Oil sells UK businesses to RockRose Energy

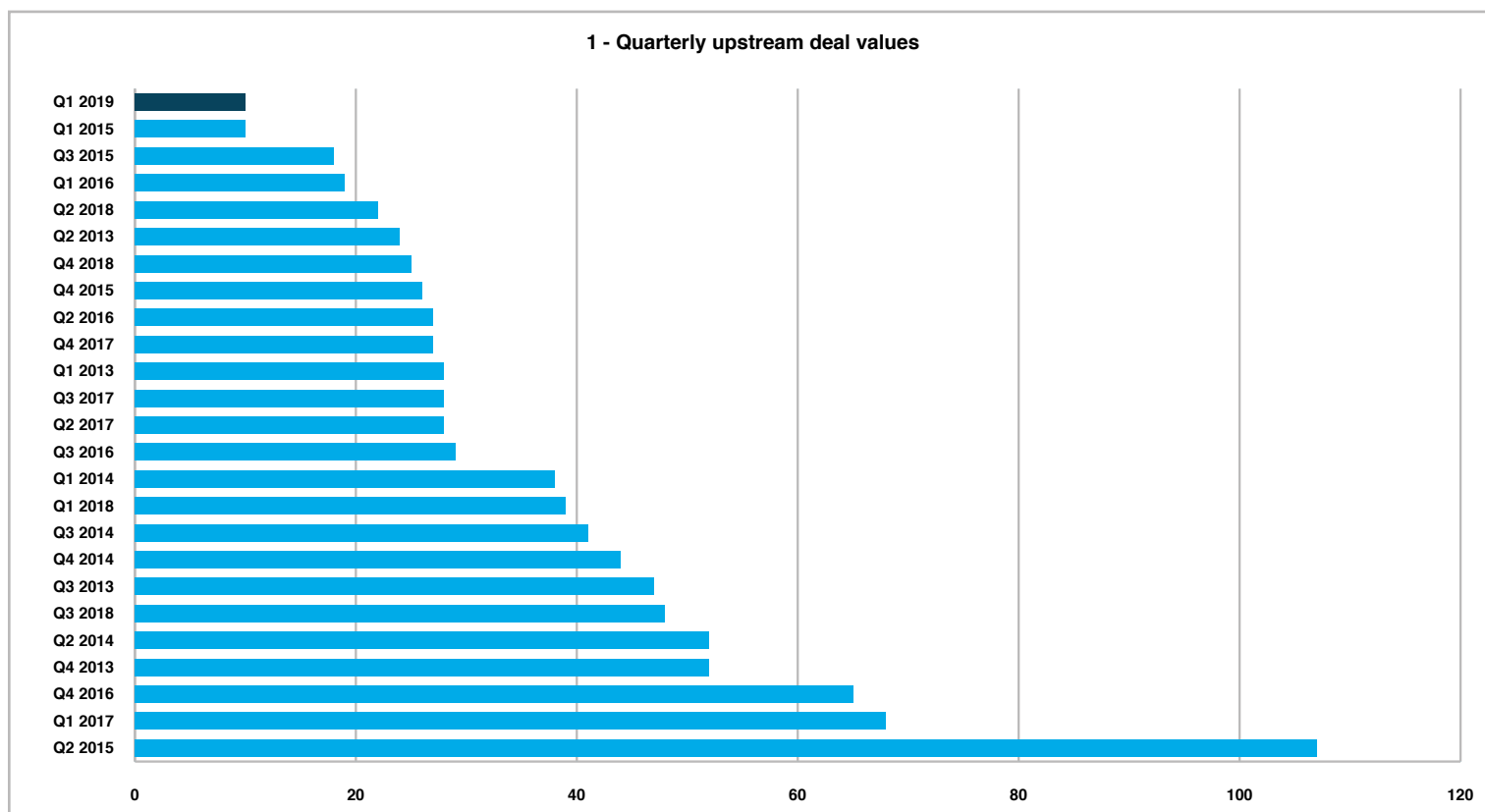
Marathon Oil Corporation has agreed to sell its UK businesses – Marathon Oil U.K. LLC (MOUK) and Marathon Oil West of Shetland Limited (MOWOS) – to RockRose Energy Plc. The deal will be worth \$140 million to Marathon upon closing, reflecting the assumption by the buyer of MOUK and MOWOS working capital and cash equivalent balances, which were approximately \$350 million on

December 31, 2018. MOUK holds a 37-40% operated interest in fields in the Greater Brae Area, where Marathon has been active for more than 30 years, while MOWOS holds a 28% stake in the BP-operated Foinaven Field unit and 47% in Foinaven East. In total, Marathon's UK production in 2018 was 13,000 boe/d, meaning the deal is worth around \$11,000 per flowing barrel.

M&A in Q1 2019 – Activity Overview

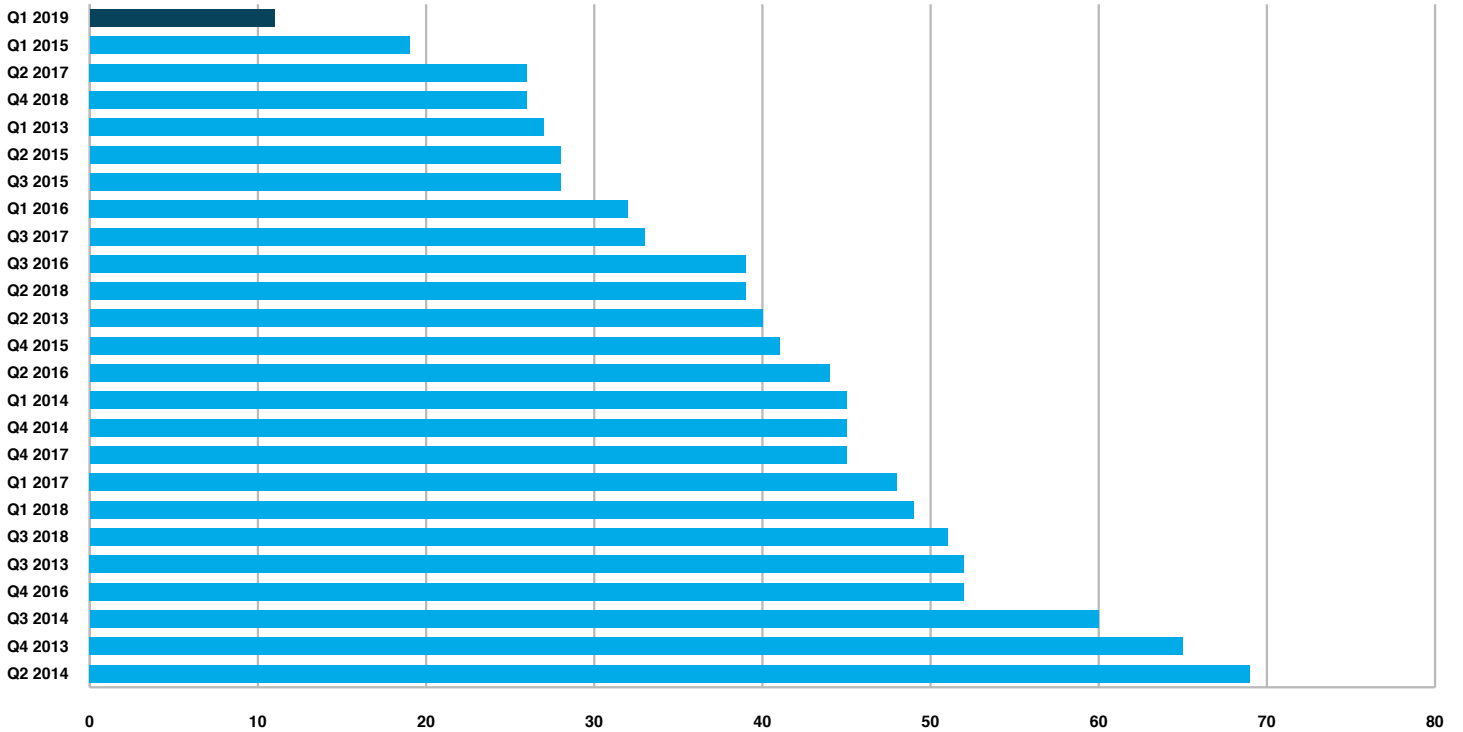
Chart	Title	Description	Analysis
1	Quarterly Upstream Deal Values 2013 - 2019 (\$ billion)	The total value of deals in the global upstream sector by quarter.	No quarter since the start of 2013 had a lower global deal value than Q1 2019
2	Number of deals over \$100 million, 2013-2019	The total number of deals announced in each quarter that were agreed for a value greater than \$100 million.	No quarter since the start of 2013 had fewer deals valued at over \$100 million than Q1 2019
3	Deals over \$100 million 2013-2019 - 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.	The few high value deals that did occur in Q1 2019 were more heavily oil-weighted at 73% in relation to other periods since Q1 2013
4	Number of deals over \$50 million, 2013-2019	The total number of deals announced in each quarter that were agreed for a value greater than \$50 million.	No quarter since the start of 2013 had fewer deals valued at over \$50 million than Q1 2019
5	Deals over \$50 million 2013-2019 - 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.	At 67%, the oil weighting of deals valued at over \$50 million in Q1 2019 was slightly higher than the average of 62% seen since Q1 2013

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.

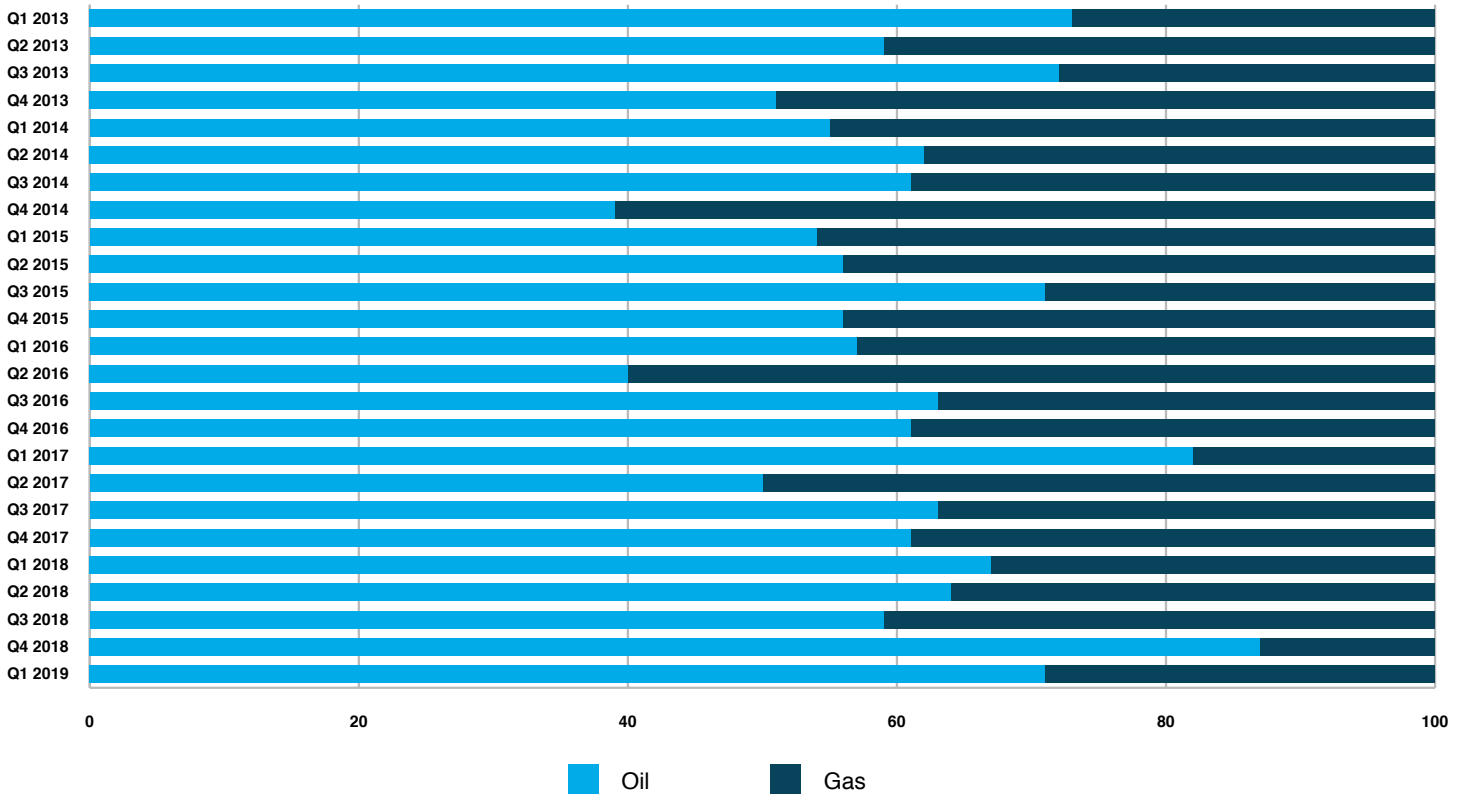


M&A in Q1 2019 – Activity Overview

2 - Number of deals over \$100 million, 2013-2019

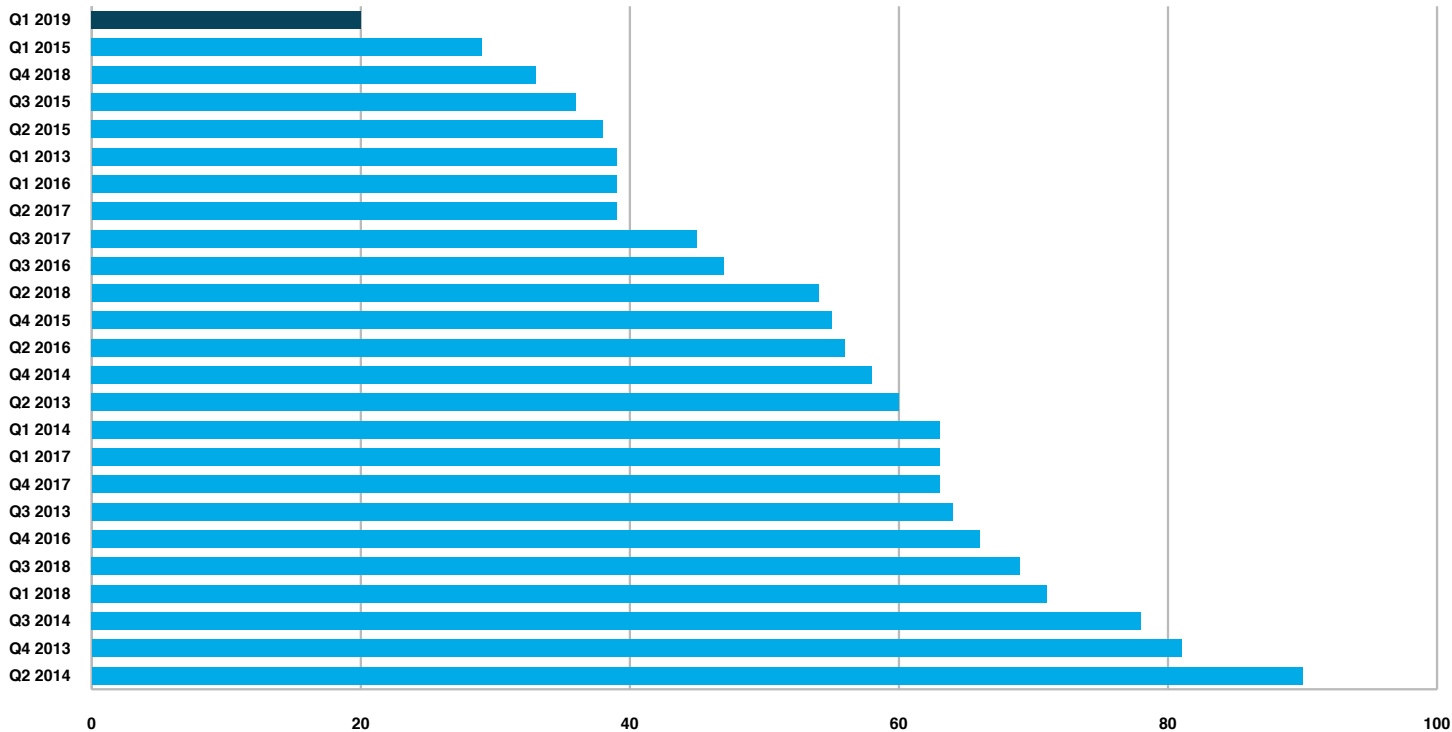


3 - Deals over \$100 million 2013-2019 - Oil weighted assets vs Gas weighted assets

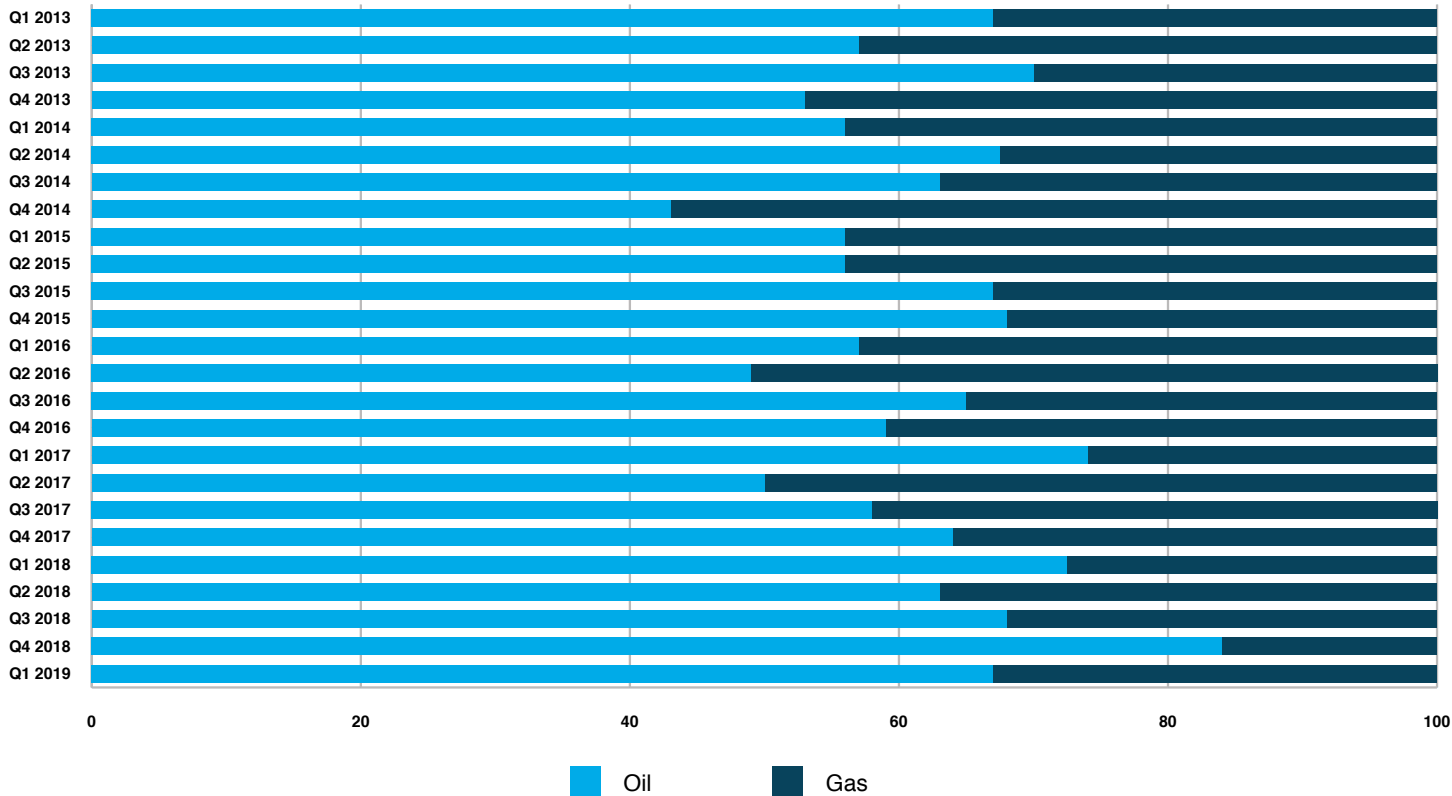


M&A in Q1 2019 – Activity Overview

4 - Number of deals over \$50 million, 2013-2019



5 - Deals over \$50 million 2013-2019 - Oil weighted assets vs Gas weighted assets



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