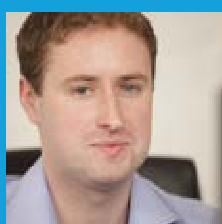
Evaluate Energy

Global Upstream M&A Report – Q2 2019



By **Eoin Coyne**
Senior Analyst, Evaluate Energy

evaluateenergy.com
energyinfo@evaluateenergy.com

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

Global Q2 upstream oil and gas M&A deals hit $91 billion

Occidental agrees largest upstream deal since 2015

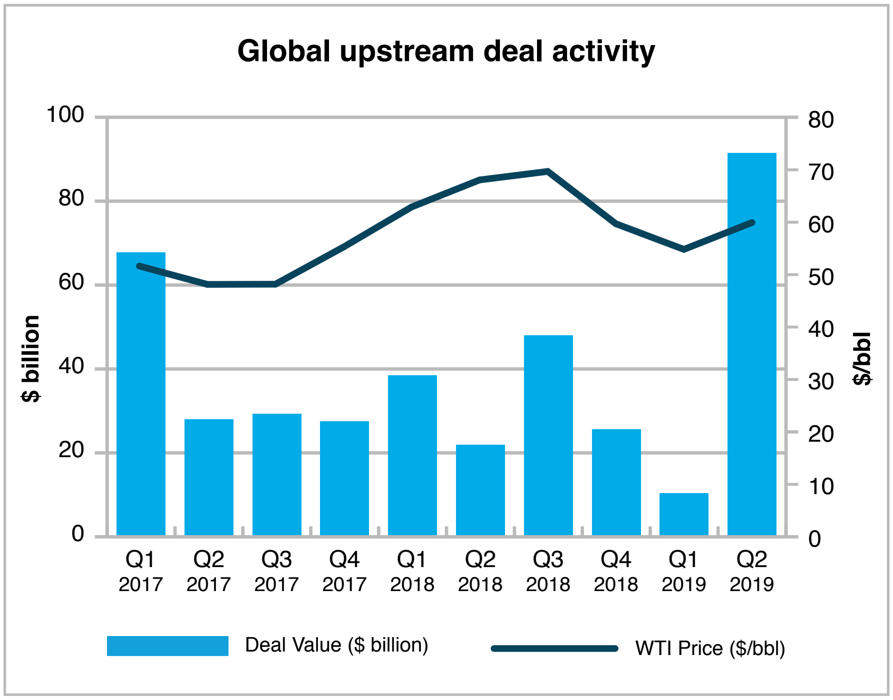
$91 billion of new upstream oil and gas M&A deals were secured during Q2 2019 – virtually nine times greater than the disappointing $10.4 billion total value in Q1. Spending was considerably boosted by Occidental Petroleum's acquisition of Anadarko Petroleum, the largest upstream deal anywhere in the world since 2015. Nonetheless, even excluding this deal, the total still indicates a sharp recovery on Q1 spending.

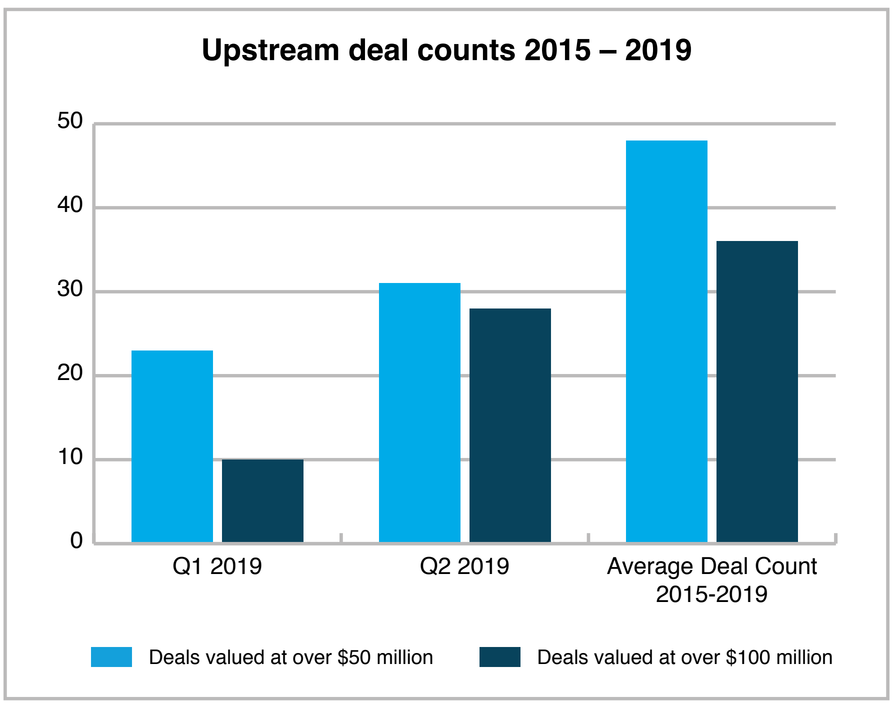
The main driver in upstream deal activity was an improved oil price. The WTI price averaged $59.94 during Q2, a 9% rise on Q1. And, unlike the prior two quarters, the price did not drop below $50.

Looking beyond the headline value of deals, however, the overall deal flow still feels rather subdued. The number of deals with a value greater than $100 million increased compared to Q1, but remained 22% lower than quarterly average counts since 2015.

There is a similar pattern for deals with values greater than $50 million – these were up on Q1 but 35% lower than average over the four-year period.

Heading into the second half of 2019, a comparatively subdued deal flow is likely to continue. Capital discipline and a desire to return value to shareholders are dominant themes in strategies recently declared by the oil industry.





Source: Evaluate Energy M&A and Deal Analytics Database.

Top 10 upstream deals worldwide in Q2 2019

Acquirer	Seller	Brief Description	Total Acquisition Cost ($ Million)
Occidental Petroleum Corporation	Anadarko Petroleum Corporation	Occidental Petroleum Corporation acquires Anadarko Petroleum Corporation	$57,000
Total	Occidental Petroleum Corporation	Total acquires Anadarko's assets in Algeria, Ghana, Mozambique and South Africa from Occidental Petroleum Corporation	$8,800
The Carlyle Group	CEPSA	The Carlyle Group acquires a significant minority shareholding in CEPSA of between 30% and 40% from Mubadala Investment Company	$5,378
Canadian Natural Resources Ltd.	Devon Energy Corporation	Canadian Natural Resources Ltd. acquires all of the Canadian assets of Devon Energy Corporation	$2,824
Chrysaor Holdings Limited	ConocoPhillips	Chrysaor acquires ConocoPhillips' UK oil and gas business	$2,675
Comstock Resources Inc.	Covey Park Energy LLC	Comstock Resources Inc. acquires Covey Park Energy LLC	$2,138
Delek Group Ltd.	Chevron Corp	Delek Group Ltd., through wholly-owned subsidiary Ithaca Energy, acquires Chevron North Sea Limited	$2,000
Petronas	Petrobras	Petronas acquires a 50% interest in the Tartaruga Verde field and Module III of Espadarte field from Petrobras	$1,294
Murphy Oil Corporation	LLOG Exploration Offshore, L.L.C.; LLOG Bluewater Holdings, L.L.C.	Murphy Oil Corporation acquires deepwater Gulf of Mexico assets from LLOG Exploration Offshore, L.L.C. and LLOG Bluewater Holdings, L.L.C.	$1,227
Equinor ASA	Royal Dutch Shell	Equinor ASA exercises its rights to acquire an additional 22.45% interest in the Caesar Tonga oil field from Royal Dutch Shell	$965

Source: Evaluate Energy M&A and Deal Analytics Database.

Occidental to acquire Anadarko

Largest deal since 2015 agreed as Chevron loses bidding war

The battle between Chevron and Occidental Petroleum for the acquisition of Anadarko Petroleum dominated the quarter. Anadarko has a huge asset portfolio that includes production in the Gulf of Mexico, the Permian Basin and other U.S. onshore regions, as well as huge development projects across Africa and Latin America.

At the start of the quarter, Chevron and Occidental both had bids on the table, with Occidental's bid, according to reports, standing 8% higher than Chevron's. Anadarko accepted Chevron's lower bid as they viewed the shares of Chevron as offering greater stability due to its size and diversified asset base. Occidental subsequently increased the cash portion of its own offer to significantly weight the deal towards cash and take the overall value up to 20% higher than Chevron's offer. Chevron did not offer a counter bid. Despite Anadarko having to pay a $1 billion break fee with Chevron, Occidental won the battle.

The final bid by Occidental amounted to $57 billion, making it the largest upstream deal since Shell acquired BG Group in 2015. Accounting for the value of Anadarko's midstream assets and major assets without proven reserves, such as Anadarko's gas discoveries offshore Mozambique, Evaluate Energy estimates that Anadarko is being acquired for $27 per boe of proven reserves.

Total to take on Anadarko's African projects

Had the Chevron offer for Anadarko succeeded, it is likely that the majority of Anadarko's portfolio would have complemented Chevron's skillset – given Chevron's experience in developing LNG projects, you could see the assets being absorbed into Chevron's portfolio.

With Occidental less than a fifth of the size of Chevron, it is likely there would be insufficient capital in addition to a lack of relevant experience to comfortably swallow all of Anadarko's operations. This has already been remedied to some extent by France's Total offering $8.8 billion for Anadarko's African assets. The deal is conditional on the closure of Occidental's deal to acquire Anadarko.

The major asset in Anadarko's African portfolio is the 26.5% stake in Mozambique Offshore Area 1, where Anadarko raised $2.6 billion for the sale of just a 10% stake in 2013 from ONGC. In mid-June, Anadarko and partners reached a Final Investment Decision on the project, which will include a 12.9 million tonne per year LNG export facility to supply customers across Asia and Europe.

Deals in the United States in Q2 2019

Comstock Resources acquires Covey Park Energy

The second largest deal in the U.S. saw Comstock Resources Inc. offer $2.1 billion for Covey Park Energy LLC. This will increase Comstock's extensive holdings in the Haynesville play in Louisiana and Texas. The acquisition will boost Comstock's production by 167% to 1.1 bcfe/d and will increase proven reserves to 5.4 tcfe.

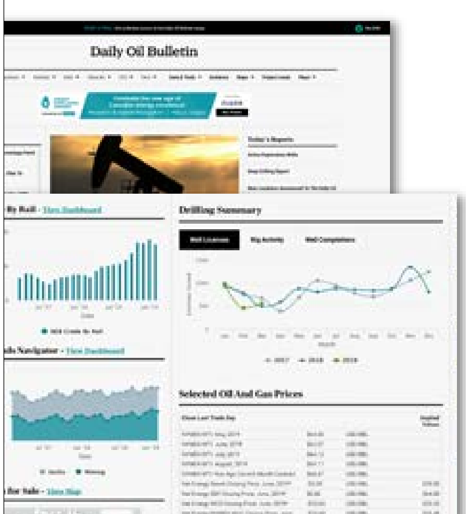
To help finance the deal, Jerry Jones, the majority owner of Comstock Resources, will buy a further 50 million shares in the company for $475 million. Following the deal, Comstock's two major shareholders will be Jerry Jones with a 75% interest and Denham Capital with 16%.

Murphy and Equinor acquire Gulf of Mexico assets

Occidental's acquisition of Anadarko was not the only major deal this quarter to include Gulf of Mexico assets changing hands.

Murphy completed its $1.23 billion cash acquisition of deepwater assets from LLOG Exploration Offshore LLC and LLOG Bluewater Holdings LLC in June. The deal boosts its Gulf of Mexico holdings by between 31,000 and 33,000 boe/d for the second half of the year, according to the company's latest guidance that takes a planned third-party pipeline outage for June into account. This represents around a 48% increase over Murphy's Gulf of Mexico production in Q1 2019.

Meanwhile, Equinor exercised its rights to acquire an additional 22.45% interest in the Caesar Tonga oil field from Royal Dutch Shell, paying $965 million. The increased stake in the field represents proven and probable reserves of around 78 million boe and production levels of around 18,000 boe/d (90% oil). Thanks to Occidental outbidding Chevron for Anadarko, this deal between Equinor and Shell means that Equinor will be the largest stakeholder at Caesar Tonga upon completion. For the time being, its partners are Anadarko (33.75%) and Chevron (20.25%).



Deals in Canada in Q2 2019

Canadian Natural Resources acquires the Canadian assets of Devon Energy

Canadian Natural Resources continued its assertive M&A strategy with the acquisition of the remaining Canadian assets of Devon Energy for $2.8 billion. The assets comprise mostly thermal oil from Devon's Jackfish project in Eastern Alberta and also include conventional heavy oil in Bonnyville, Alberta. CNRL will receive 123,000 b/d of production, 879 million barrels of 2P reserves and 1.5 million acres of land.

CNRL was a natural buyer for these assets as they already own assets adjacent to Devon's portfolio. CNRL reports that there will be C$135 million per year of synergies from facility consolidation and operating and marketing efficiency opportunities.

It has been an extremely busy few years for CNRL in boosting its heavy oil and oil sands portfolio. Since the start of 2017, the company has acquired a majority stake in the AOSP project from Royal Dutch Shell and Marathon Oil, plus Pelican Lake production from Cenovus Energy, as well as full ownership of the Joslyn project from Total, Suncor and their partners.

For Devon, this deal is another step in its strategy to transform into a "U.S. oil growth business," which, when complete, will leave Devon with a portfolio of assets in the Permian and Powder River basins and the STACK and Eagle Ford plays.

Major Oil Sands or Heavy Oil Acquisitions by CNRL since Jan. 1, 2017

Date Announced	Selling Company	Description of Assets	Total Acquisition Cost ($ Billion)
Mar. 9, 2017	Royal Dutch Shell	A 60% interest in AOSP, as well as Peace River Complex in-situ assets and undeveloped oil sands leases in Alberta	$8.3
May. 29, 2019	Devon Energy Corp.	Devon's entire Canadian asset base, including the Jackfish oil sands project	$2.8
Mar. 9, 2017	Marathon Oil Corp.	A 10% interest in the AOSP Project	$1.3
Sep. 5, 2017	Cenovus Energy Inc.	Pelican Lake heavy oil producing assets	$0.8
Aug. 31, 2018	Total, Suncor, Inpex, Joslyn Partnership	A 100% interest in the Joslyn oil sands project	$0.2
Jul. 26, 2018	Laricina Energy Ltd.	Acquisition of Laricina Energy Ltd.	$0.1

Source: Evaluate Energy M&A and Deal Analytics Database.

Deals in Canada in Q2 2019

Two gas deals bring two Canadian LNG projects closer to completion

Pacific Oil & Gas and Pieridae Energy both announced deals this quarter to acquire gas producing assets to boost the prospects of their respective LNG projects in Canada.

Pacific Oil & Gas, owners of the Woodfibre LNG project in British Columbia, acquired 200 mmcf/d of natural gas production in a deal to acquire privately-held Canbriam Energy Inc. for an undisclosed fee in a deal that closed in early July. Canbriam's portfolio is all in the Montney formation. It was a busy quarter for Pacific, as it also announced that it had signed up BP as its first major LNG customer for Woodfibre's LNG once the project becomes operational. Pacific also stated that it was working with BP Canada on a deal to secure further feedstock for the terminal in addition to the gas assets acquired through Canbriam.

Pieridae Energy, owners of the Goldboro LNG project in Nova Scotia, agreed a C$190 million deal to acquire conventional natural gas assets from Royal Dutch Shell. The deal simultaneously helps Pieridae clear two key hurdles as it moves its project towards completion. Firstly, it unlocks C$1.5 billion in upstream development funding from the German government. Second, it secures the feedstock for its first production train – the entire 5 million tonne annual capacity that is already under a 20-year supply contract with Germany's Uniper.

The deal with Pieridae also means that Shell will have a significant interest in the success of Canadian LNG export projects on both the east and west coasts. Shell is already the largest investor for LNG Canada in British Columbia, and this deal consideration includes a C$15 million stake in Pieridae – roughly 12% of shares at closing based on current prices and the details on Pieridae's private placement. While upstream and oilsands asset sales have significantly reduced Shell's presence in Canada over the past few years, the company is arguably the most important player in Canada's LNG sector.

Major International Deals in Q2 2019 – UK North Sea Focus

Chrysaor Holdings acquires the UK oil and gas business of ConocoPhillips

Chrysaor Holdings Ltd. is now the company responsible for the UK North Sea's two largest deals since the start of 2017 as it made its second major deal since inception. It has agreed to acquire ConocoPhillips's UK upstream business for $2.675 billion. Chrysaor will gain 72,000 boe/d of production, 99 million boe of 1P reserves and 280 million boe of 2P reserves.

This deal follows the $3.8 billion acquisition by Chrysaor of a package of UK assets from Royal Dutch Shell in 2017 and is a further step in Chrysaor's ambition to be "one of Europe's leading independent, full cycle exploration and production companies."

Delek acquires Chevron UK

Chevron became the second major company to dispose of its UK oil and gas assets this quarter when it reached a $2 billion agreement with Delek Group, the third largest UK North Sea asset deal since the start of 2017. The deal will be conducted through Delek's wholly-owned subsidiary Ithaca Energy. Chevron's UK assets comprise 60,000 boe/d and 135 million boe of 2P reserves.

Major UK North Sea Deals since Jan. 1, 2017

Date Announced	Acquirer	Selling Company	Description	Total Acquisition Cost ($ Million)
Jan. 31, 2017	Chrysaor Holdings Limited	Royal Dutch Shell	Chrysaor Holdings Limited acquires a package of UK North Sea assets from Royal Dutch Shell	$3,800
Apr. 18, 2019	Chrysaor Holdings Limited	ConocoPhillips	Chrysaor acquires ConocoPhillips' UK oil and gas business	$2,675
May 30, 2019	Delek Group Ltd.	Chevron North Sea Limited	Delek Group Limited acquires Chevron North Sea Limited	$2,000
Jul. 3, 2018	BP Plc.	ConocoPhillips	BP Plc acquires a 16.5% interest in the Clair Field from ConocoPhillips	$1,739
Feb. 6, 2017	Delek Group Ltd.	Ithaca Energy Inc.	Delek Group Ltd acquires 80.3% of the issued common shares of Ithaca Energy Inc	$1,368

Source: Evaluate Energy. – Note: Total acquired Maersk Oil's E&P division in 2017 for around $4.7 billion. Maersk's portfolio included, but was by no means limited to, UK North Sea assets.

Other Major International Deals in Q2 2019

Carlyle Group acquires 30%-40% stake in CEPSA

The Carlyle Group, a private equity company, announced a deal to acquire a significant minority stake in CEPSA from parent company Mubadala Company. The exact stake is yet to be determined, but Carlyle advised that it will likely be between 30% and 40%. Based on a 35% stake and including the net debt of CEPSA, the deal is worth $5.4 billion. CEPSA is an integrated company that owns refineries, service stations, chemical plants and power plants in addition to oil and gas. In relation to oil and gas, CEPSA had 58,000 boe/d of net entitlement production during 2018, the majority of which derived from Algeria, followed by Colombia and then Malaysia and Thailand.

Petronas makes significant acquisition in Brazil

Malaysia's Petronas made a $1.3 billion acquisition in Brazil this quarter, acquiring a 50% stake in the Tartaruga Verde field and Module III of the Espadarte field from Petrobras. Both fields are located in the deep waters of the Campos Basin. Petrobras will retain operatorship and the other 50% stake in the fields. Tartaruga currently produces 103,000 bbl/d of oil and 1.2 million m3 of natural gas every day, representing an increase of around 55,000 boe/d to Petronas' Brazilian portfolio at a cost of approximately $23,500 per flowing barrel. First oil at Module III of the Espardate field is expected in 2021.

This was just one of three sales concurrently announced by Petrobras this quarter.

First, Petrobras announced the sale of its 90% stake in the company running Brazil's natural gas transportation sector for $8.6 billion including debt. The acquirers are ENGIE and Canada's Caisse de Dépôt et Placement du Québec.

The other sale was in the upstream sector; as local firm Petrorecôncavo S.A. won a bidding process to take a full ownership stake in 34 concessions for producing fields in Rio Grande do Norte. This sale will generate an initial $323 million, which could rise by a further $62 million if approvals are granted for extensions on 10 of the 34 concessions by the ANP in the future.

Since the start of 2018, Petrobras has agreed just over $2 billion in Brazilian upstream sales and almost $14 billion in asset and business unit sales across all of its sectors worldwide.

Upstream Sales by Petrobras in Brazil between Jan. 1, 2018 and Jun. 30, 2019

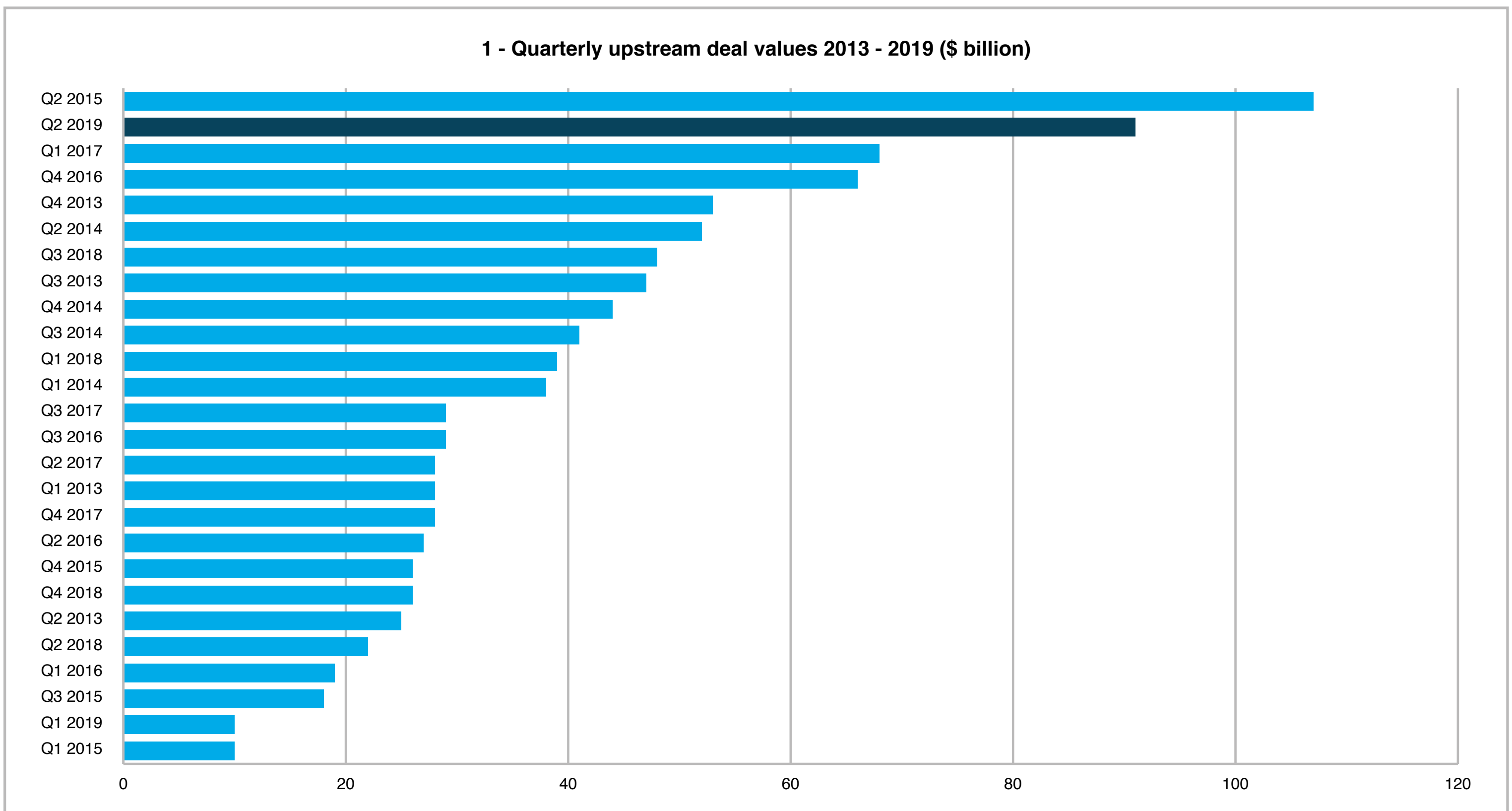
Date Announced	Acquirer	Description	Total Acquisition Cost ($ Million)
Apr. 24, 2019	Petronas	A 50% interest in the Tartaruga Verde field and Module III of Espadarte field	$1,294
Apr. 24, 2019	Petrorecôncavo SA	34 onshore producing fields in Rio Grande do Norte	$323
Mar. 4, 2019	BW Offshore Limited	A 70% interest in the Maromba field in the Campos Basin	$90
Nov. 28, 2018	Perenco	A 100% stake in the Pargo, Carapeba and Vermelho fields	$370

Source: Evaluate Energy M&A. Aside from the $8.6 billion midstream sale discussed above, Petrobras' major sales outside of the upstream sector in Brazil include the sales of its deepwater Nigeria assets and refinery assets in the United States.

M&A in Q2 2019 – Activity Overview

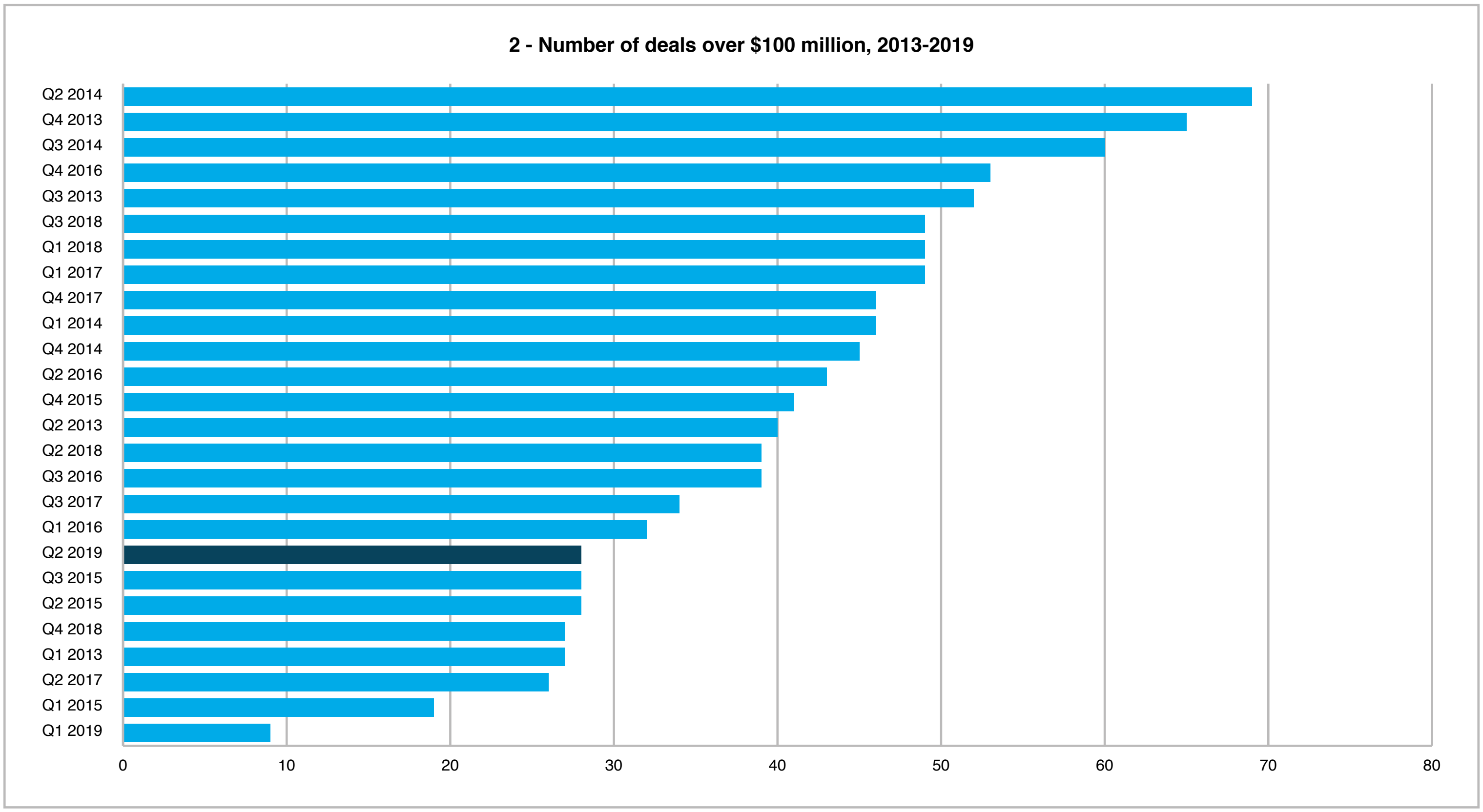
Chart	Title	Description	Analysis
1	Quarterly Upstream Deal Values 2013 - 2019 ($ billion)	The total value of deals in the global upstream sector by quarter.	Only one quarter since the start of 2013 had a larger global deal value than Q2 2019
2	Number of deals over $100 million, 2013-2019	The total number of deals announced in each quarter that were agreed for a value greater than $100 million.	Only seven quarters since the start of 2013 had fewer deals valued at over $100 million than Q2 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.	High value deals in Q2 2019 were slightly more heavily oil-weighted at 65% in relation to the 61% quarterly average seen 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.	Only two quarters since the start of 2013 had fewer deals valued at over $50 million than Q2 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 68%, the oil weighting of deals valued at over $50 million in Q2 2019 was slightly higher than the average of 62% seen since Q1 2013

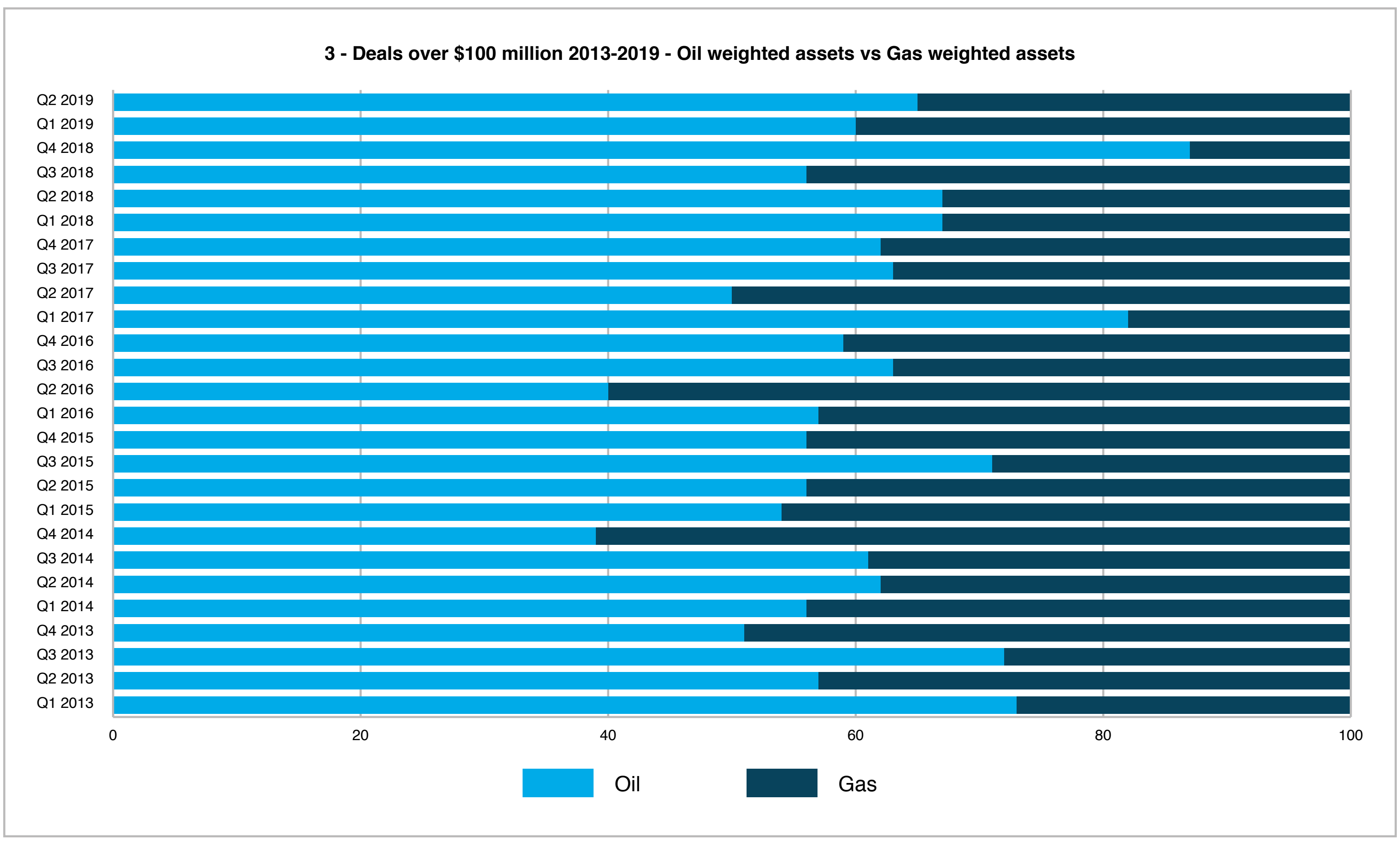
Note for all charts in this section: Data sourced from Evaluate Energy M&A and Deal Analytics Database. The charts only refer to deals announced before the end of each quarter.



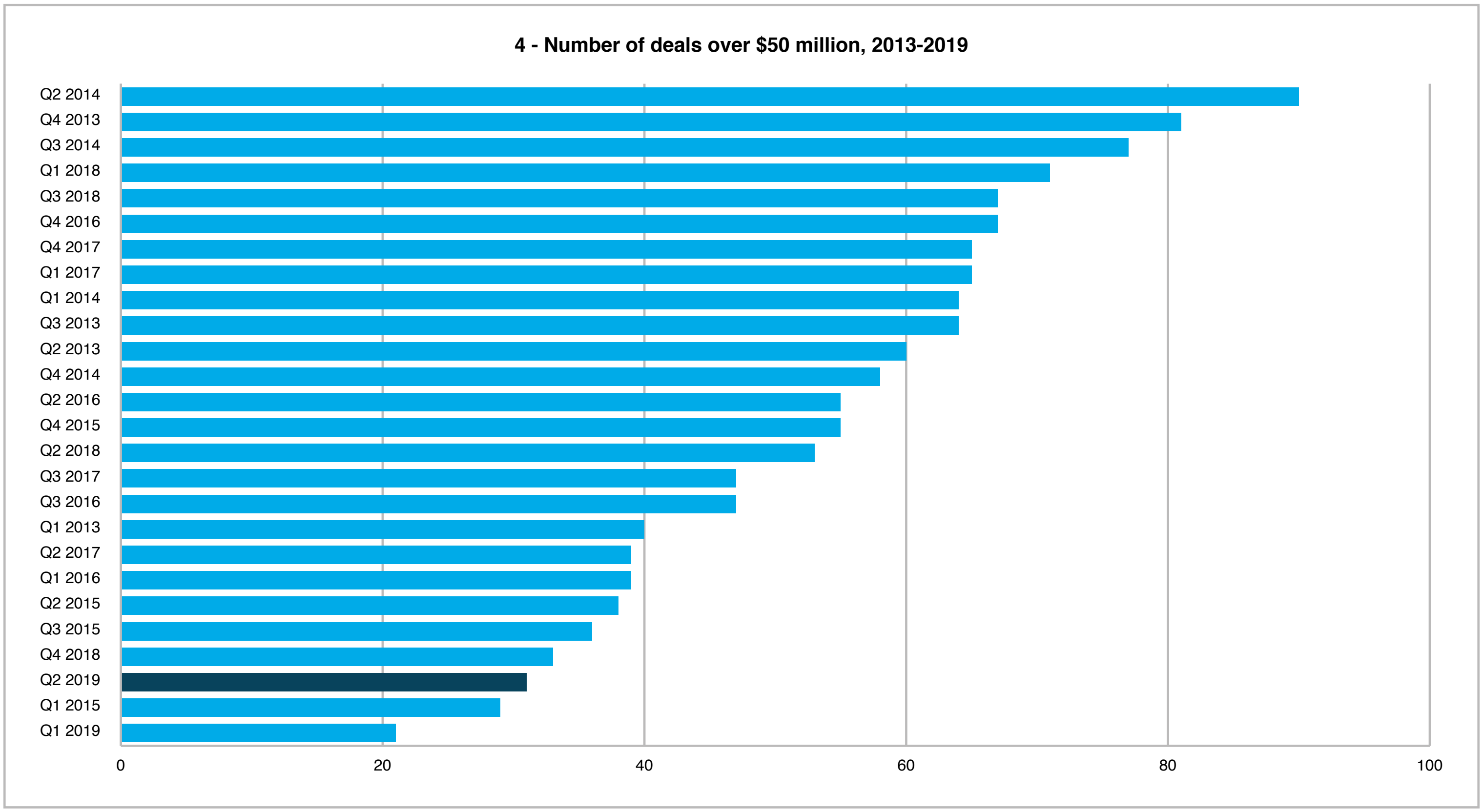
Unless otherwise stated, all $ values refer to U.S. dollars

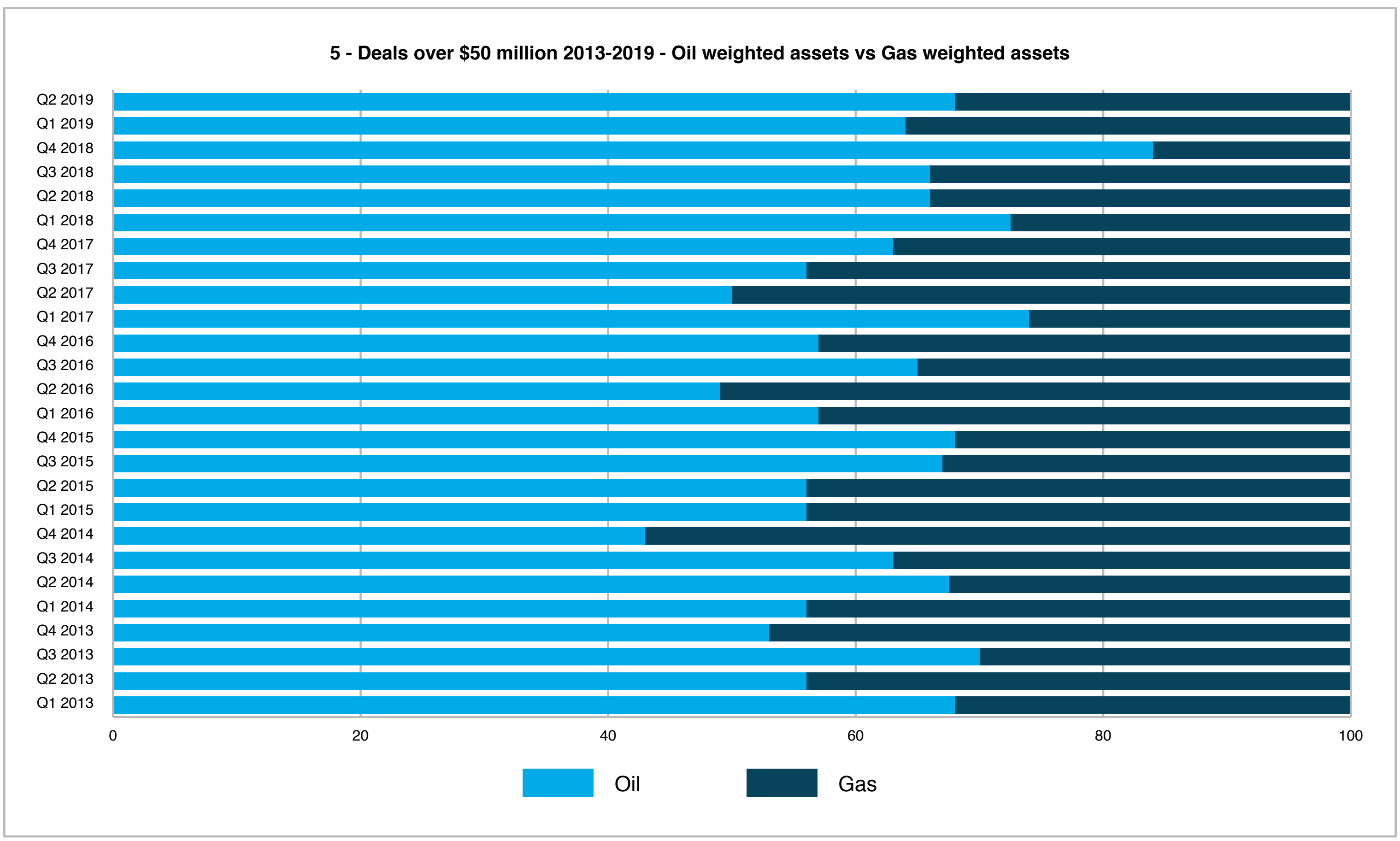
M&A in Q2 2019 – Activity Overview





M&A in Q2 2019 – Activity Overview





Unless otherwise stated, all $ values refer to U.S. dollars

About Us – Evaluate Energy M&A

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

evaluateenergy.com
energyinfo@evaluateenergy.com

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

Global Upstream M&A Report – Q2 2019
By Eoin Coyne, Senior Analyst, Evaluate Energy

evaluateenergy.com
energyinfo@evaluateenergy.com

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

Evaluate
Energy

Global Upstream M&A Report – Q2 2019

By **Eoin Coyne**
Senior Analyst, Evaluate Energy

evaluateenergy.com
energyinfo@evaluateenergy.com

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