

# Evaluate Energy

## Global Upstream M&A Report – Q3 2019



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# Global upstream M&A deals drop to \$31 billion in Q3 2019

## Sluggish oil prices cause drop in upstream deal activity

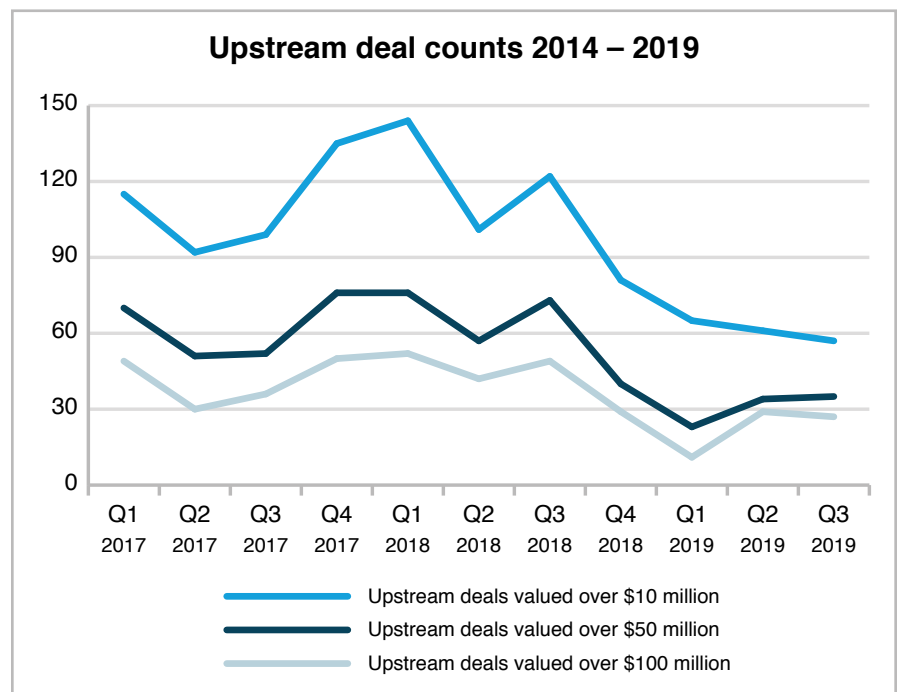
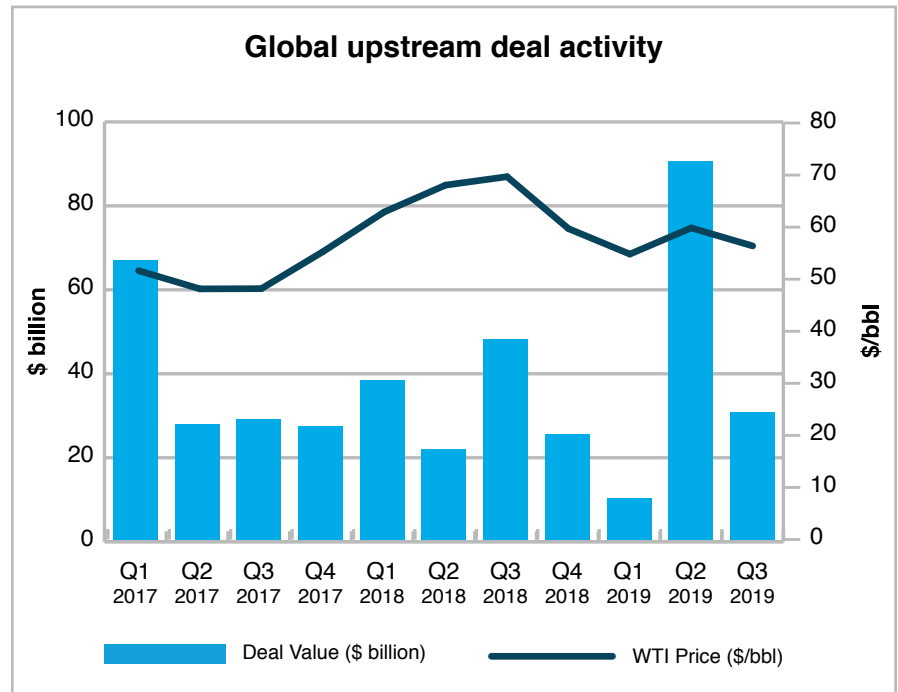
Sluggish oil prices prompted a sluggish response among upstream M&A dealmakers with just \$31 billion of activity in Q3 – a 66% drop on Q2 2019 and a 36% drop compared to Q3 2018. The total also stands 21% lower than the average quarterly spend of \$40 billion over the past five years.

The oil price, the main driver of M&A activity, averaged \$56 as per the WTI benchmark in Q3 2019, which is 19% lower than the \$70 average price in the same period of last year. A slowdown in demand for oil and fears of a global recession dampen prices.

Evaluate Energy believes the market will require continued supply-side support in the form of OPEC production curtailments for prices to remain stable.

The quarter saw just over \$17 billion in new deals agreed for assets in the United States, including corporate deals in the Permian and DJ basins and one of the world's supermajors ending a 60-year association with Alaska.

Norway saw a record \$7 billion in new deals – a quarterly high since 2008 – while Canadian upstream M&A hit a near record low.



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

## Top 10 upstream deals worldwide in Q3 2019

Acquirer	Seller	Brief Description	Total Acquisition Cost (\$ Million)
Hilcorp Energy Company	BP plc	BP Plc divests its entire upstream and midstream business in Alaska to Hilcorp Energy Company	5,600
Var Energi AS	ExxonMobil	Var Energi AS acquires the remaining Norwegian upstream portfolio of ExxonMobil	4,500
Callon Petroleum Company	Carrizo Oil & Gas Inc.	Callon Petroleum Company acquires Carrizo Oil & Gas Inc.	3,200
Public	Gazprom	Gazprom divests 2.93% of its ordinary shares via a secondary public offering	2,200
PDC Energy Inc.	SRC Energy Inc.	PDC Energy Inc. acquires SRC Energy Inc.	1,700
Lundin Petroleum AB	Equinor ASA	Lundin Petroleum AB buys back 16% of its own share capital from Equinor ASA	1,557
Pluspetrol	SK Innovation Co. Ltd	Pluspetrol acquires a 17.6% interest in Block 88 and Block 56 in Peru from SK Innovation Co. Ltd	1,052
Ecopetrol	Occidental Petroleum Corporation	Ecopetrol forms a Permian Basin joint venture with Occidental Petroleum Corporation to develop and acquire a 49% stake in Occidental's Midland Basin properties.	1,500
Spur Energy Partners LLC	Concho Resources Inc.	Spur Energy Partners LLC acquires assets in the New Mexico Shelf from Concho Resources Inc.	925
Equinor ASA	Lundin Petroleum AB	Equinor ASA acquires a 2.6% stake in the Johan Sverdrup field from Lundin Petroleum AB	910

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

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# Deals in the United States in Q3 2019

## Hilcorp Acquires BP's Alaska Assets

The largest deal of the quarter saw Hilcorp Energy Company acquire the entire Alaskan upstream and midstream business of BP for \$4 billion in cash and a \$1.6 billion future earn-out. Hilcorp already operates 75,000 boe/d of production in Alaska and this acquisition will add another 74,000 boe/d of net production, including a 26% stake in the Prudhoe Bay field, the largest single oil field in the United States. Privately-held Hilcorp will also be gaining key midstream assets

including a 49% stake in both the Trans-Alaska Pipeline System and Alyeska Service Company.

BP stated that the divestment in Alaska, which ends 60 years of asset ownership in the region, is part of a two-year \$10 billion divestment programme. The transaction marks the second major deal in the region between the companies; in 2014, Hilcorp acquired North Slope oil field interests in Alaska from BP for \$1.25 billion.

## Callon Petroleum Acquires Carrizo Oil & Gas

The largest corporate deal of the quarter involved Callon Petroleum Company offering to acquire Carrizo Oil & Gas Inc. in an all stock deal worth \$3.2 billion including Carrizo's net debt. Callon is offering 2.05 shares for each Carrizo share, which on a 1-day prior share price basis represented a 25% premium on the day of the announcement.

Since the announcement some Callon shareholders have viewed the premium to be too high and believe that Callon, a pure-play Permian Basin company, may dilute its proposition

by taking significant non-Permian assets. Since the deal was announced, Callon's share price has decreased 30%, which leaves the current premium offered to Carrizo Oil & Gas shareholders standing at just 6%.

Should the deal go ahead, Callon would acquire 62,000 boe/d of production (82% liquids) and 329 million boe of proved reserves (76% liquids). 64% of Carrizo's assets by production are within the Eagle Ford play, with the remainder in the Delaware sub-basin of the Permian.

## PDC Energy Acquires SRC Energy

The next largest corporate deal involves PDC Energy Inc. acquiring SRC Energy Inc. for \$1.7 billion, including net debt. The deal will bring together PDC, operating predominantly in the DJ Basin but also in the Delaware Basin, with SRC, a pure-play DJ Basin company. The deal is structured as an acquisition by PDC, but the terms of the deal are more akin to a friendly merger with the offer being composed purely of stock and with virtually no share premium.

PDC and SRC are looking to receive the benefits of increased scale from combining their respective businesses. The combined company will become the second largest producer in the DJ Basin and PDC estimates that the resulting synergies will reduce G&A expenses to just \$2.00/boe. The resulting company will have an enterprise value of \$4.5 billion and 197,000 boe/d of production.

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# Deals in the United States in Q3 2019

## Concho Resources Sells New Mexico Shelf Assets

Concho Resources Inc. has agreed a \$925 million deal to sell its assets on the New Mexico Shelf to an affiliate of privately-held Spur Energy Partners LLC. The transaction is expected to close in November and includes over 100,000 gross acres of land and 25,000 boe/d of production. This represents an outlay of around \$37,000 per flowing barrel for Spur. This sale by Concho will enable the company to embark on a \$1.5 billion share repurchase initiative to deliver

shareholder returns, as well as pay down borrowings on its credit facilities.

This is the first upstream M&A deal involving Concho since last July when it completed the acquisition of RSP Permian Inc. for over \$9.5 billion in the second largest upstream deal of 2018, a deal which created the largest unconventional shale producer in the Permian Basin.

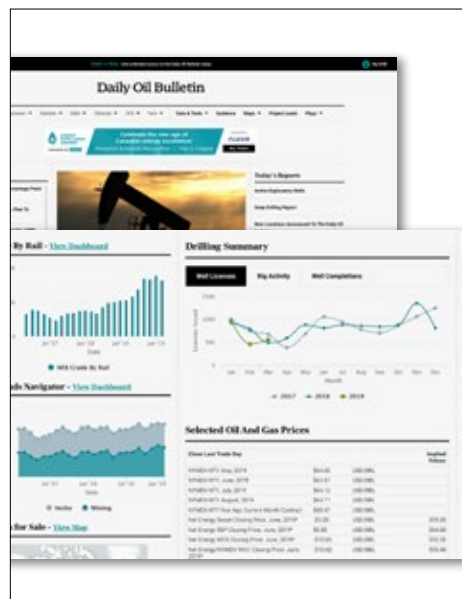
## Ecopetrol and Occidental Form Midland Basin Partnership

Colombia's Ecopetrol and Occidental Petroleum Corporation have formed a joint venture on 97,000 net acres of Occidental's Midland Basin properties in the Permian Basin. Ecopetrol will pay \$750 million in cash and will also contribute \$750 million of carried capital during a carrying period where Ecopetrol will pay 75% of Occidental's share of capital expenditures. Ecopetrol will own a 49% interest in the joint venture, with Occidental owning the remaining 51% and acting as operator.

billion acquisition of Anadarko Petroleum, which completed mid-way through the third quarter. The deal will also allow a faster rate of development for the acreage in question than what might have otherwise played out.

For Ecopetrol, a key part of the deal will be the secondment of employees to the joint venture to gain more knowledge of shale development in the Permian Basin. Ecopetrol plans to transfer this expertise to its own assets and key development areas back home in Colombia.

For Occidental, the deal will free up capital following its \$55



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# Deals in Canada in Q3 2019

## Near record low in quarterly spending on upstream assets

Only \$207 million was spent on Canadian upstream assets this quarter with just six individual deals agreed. While this is the second lowest quarterly total of upstream Canadian deal value since Evaluate Energy's M&A data began in 2008, it is unfortunately not the lowest quarter this year; Q1 2019 saw just \$61 million in new deals agreed.

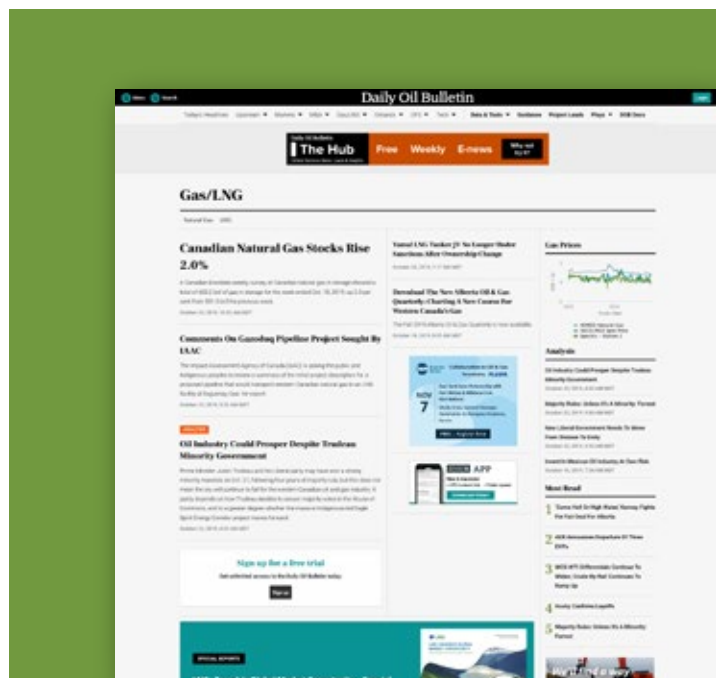
Despite a reasonably healthy Q2 where over \$3 billion was spent, 2019 is currently on track to have the lowest annual total of Canadian M&A activity by far in Evaluate Energy records. The current record low is \$10.3 billion in 2016, and 2019 might not even reach half that total based on the first three quarters. At these relatively low values, a major deal or two could easily mask this trend by year-end and close the gap, but for now, interest in deals for Canadian upstream assets appears to be at a record low.

Approximately \$160 million of this quarter's total was related to conventional producing assets sold by Crescent Point Energy in Southeast Saskatchewan. The acquirer of

these Saskatchewan assets was not named. The assets produced 7,000 boe/d (85% liquids) at the time the deal was announced, representing 18% of the company's SE SK portfolio based on Q2 production levels. The decision to sell the assets was made due to the assets operating at a higher operating cost structure, generating operating netbacks around 30% below the company's corporate average.

Alongside this deal, Crescent Point agreed a \$525 million sale of assets in the Uinta basin in the United States, which the company forecasts 20,000 boe/d of 2020 production. Improving the company's overall corporate netback was also the motivation behind this sale.

There was only one other deal valued at over \$10 million this quarter: a \$32 million deal including debt assumption that saw privately-held Karve Energy acquire High Ground Energy Inc. The acquisition increases Karve's position in the Alberta Viking formation and will enable expansion of the company's waterflood project in the near future.



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# Major International Deals in Q3 2019 – Norway Focus

Norway saw more than \$7 billion in new upstream deals announced this quarter, representing 23% of global deal value this quarter, second only to the United States' 55% in terms of country-by-country contribution to the global total. It is just the second time since 2008 where Norwegian upstream deals reached a total quarterly value greater than \$5 billion; the only other time was Q2 2017. Two sets of deals are behind the total.

## Var Energi Acquires the Norwegian Assets of ExxonMobil

Three months after it was reported that ExxonMobil was seeking a buyer of its Norwegian upstream portfolio, Var Energi AS, co-owned by Italy's Eni (69.6%) and private equity investment firm HitecVision (30.4%), announced a \$4.5 billion deal. The portfolio consists of non-operated interests in 20 fields that currently produce at a rate of 150,000 boe/d (61% liquids). The deal will elevate Var Energi to become

the second largest producer in Norway, with only Equinor producing more.

For ExxonMobil, the deal is part of a divestment programme that targets \$15 billion in sales by 2021. ExxonMobil will maintain a presence in Norway in the downstream sector thanks to its ownership of the Slagentagen refinery.

## Lundin Buys Back 16% of Equity and Divests Stake in Johan Sverdrup

Lundin Petroleum and Equinor announced two concurrent deals in the quarter for a combined value of \$2.5 billion. The larger of the two deals involved Lundin Petroleum acquiring 54.5 million shares of its own stock back from Equinor, at an 8% discount to the market price, for \$1.6 billion. The number of shares equates to a 16% interest in Lundin Petroleum. Following the sale, Equinor will retain a 4.9% in the company.

To help fund the share buyback, Lundin Petroleum is divesting a 2.6% interest in the Johan Sverdrup field

to Equinor for \$910 million. Following the sale, Lundin Petroleum will retain a 20% in the field. Johan Sverdrup is an oil field offshore Norway which is expected to produce at a rate of 440,000 b/d during its first phase of operation and holds up to 3 billion barrels of recoverable oil. Production started at Johan Sverdrup in early October, more than two months ahead of schedule.

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# Other Major International Deals in Q3 2019

Away from Norway, the remaining high value Q3 deal activity outside of North America was seen in Latin America, where Petrobras continued to sell assets and Peru saw a \$1 billion deal agreed.

## Pluspetrol Acquires a 17.6% Interest in Camisea From SK Innovation

Pluspetrol acquired a 17.6% stake in Blocks 56 and 88 in Peru from South Korea's SK Innovation for \$1.05 billion. Together, the blocks form the Camisea gas project – Peru's largest gas field – and produce at a rate of 340,000 boe/d

(74% gas). Camisea caters for the vast majority of Peru's gas demand and also supplies the Melchorita LNG export terminal.

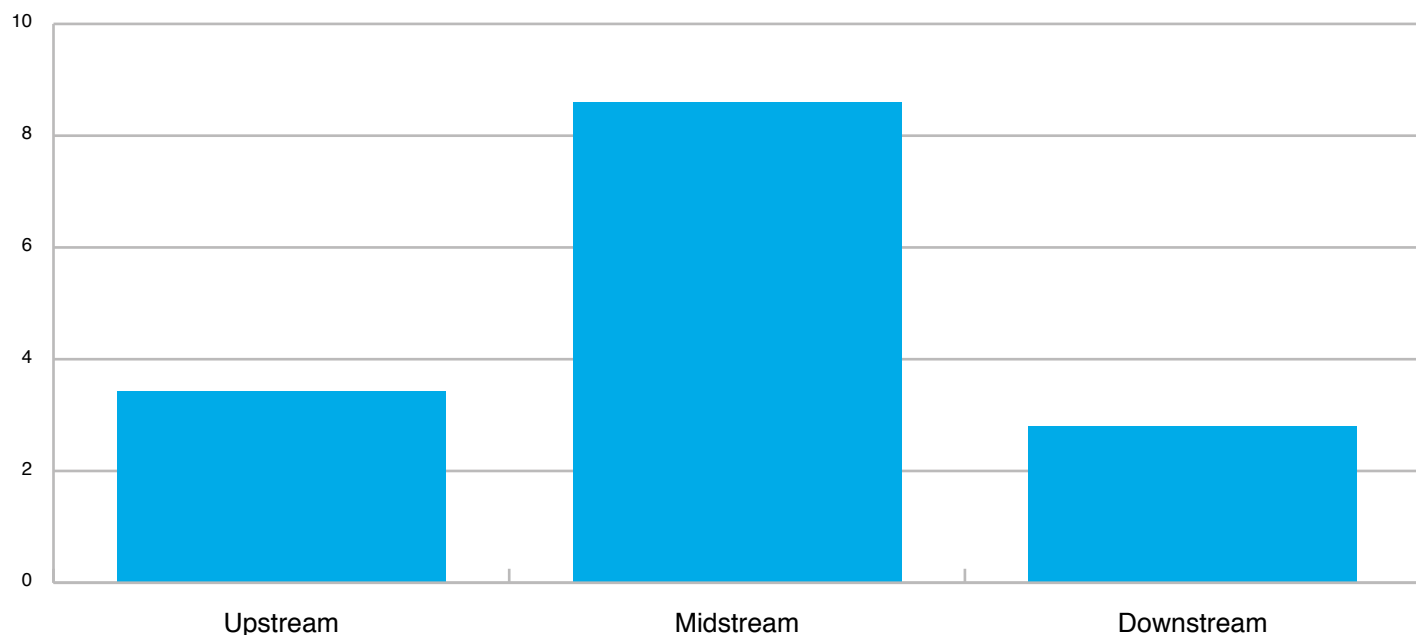
## Petrobras Continues Major Divestment Plans

Brazil's Petrobras continued its recent asset divestment programme by agreeing three new sales in the third quarter. The largest was an \$851 million deal to sell assets in the Campos Basin to Trident Energy LP, a portfolio company of Warburg Pincus. A few days earlier, Australia's Karoon Energy Ltd. agreed to acquire Petrobras' 100% stake in the Baúna field in the Santos basin for \$665 million, while the third and most recent Petrobras sale will see 3R Petroleum acquire

producing fields in the Potiguar Basin for \$191 million.

Including a minor deal that was announced on the first day of October, Petrobras has now announced over \$3.4 billion in new upstream asset sales since the start of 2019 and over \$14.8 billion in new asset sales across all business sectors. The company is yet to announce any asset acquisitions this year.

Petrobras asset sales in Brazil by segment in 2019 (US\$ billion)

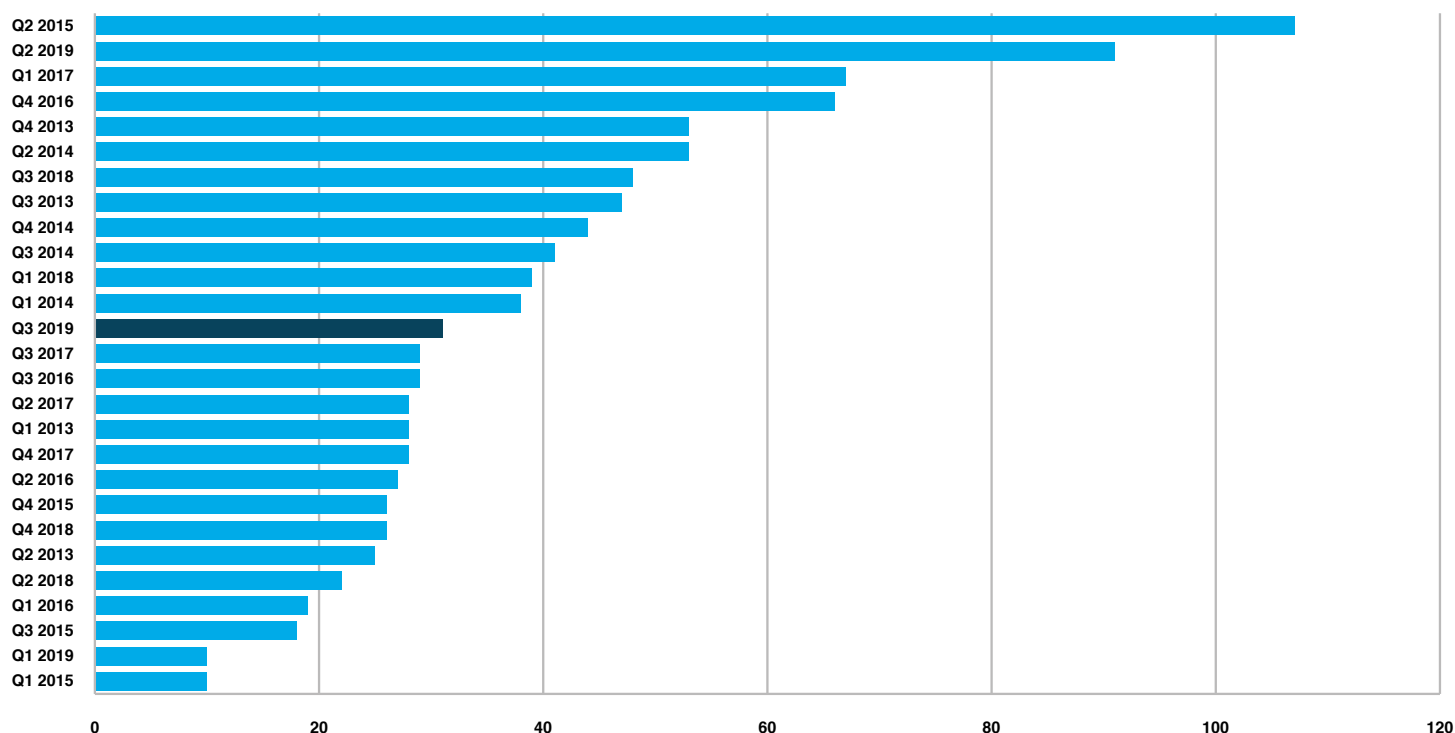


# M&A in Q3 2019 – Activity Overview

Chart	Title	Description	Analysis
1	Quarterly Upstream Deal Values 2013 - 2019 (\$ billion)	The total value of deals in the global upstream sector by quarter.	Q3 2019 was just below average compared to other quarters since the start of 2013 with \$31 billion in new deals
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 two quarters since the start of 2013 had fewer deals valued at over \$100 million than Q3 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 Q3 2019 were more heavily gas-weighted at 45% than all but five quarters since the start of 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 three quarters since the start of 2013 had fewer deals valued at over \$50 million than Q3 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.	Deals valued at over \$50 million in Q3 2019 were more heavily gas-weighted at 48% than all but three quarters since the start of 2013

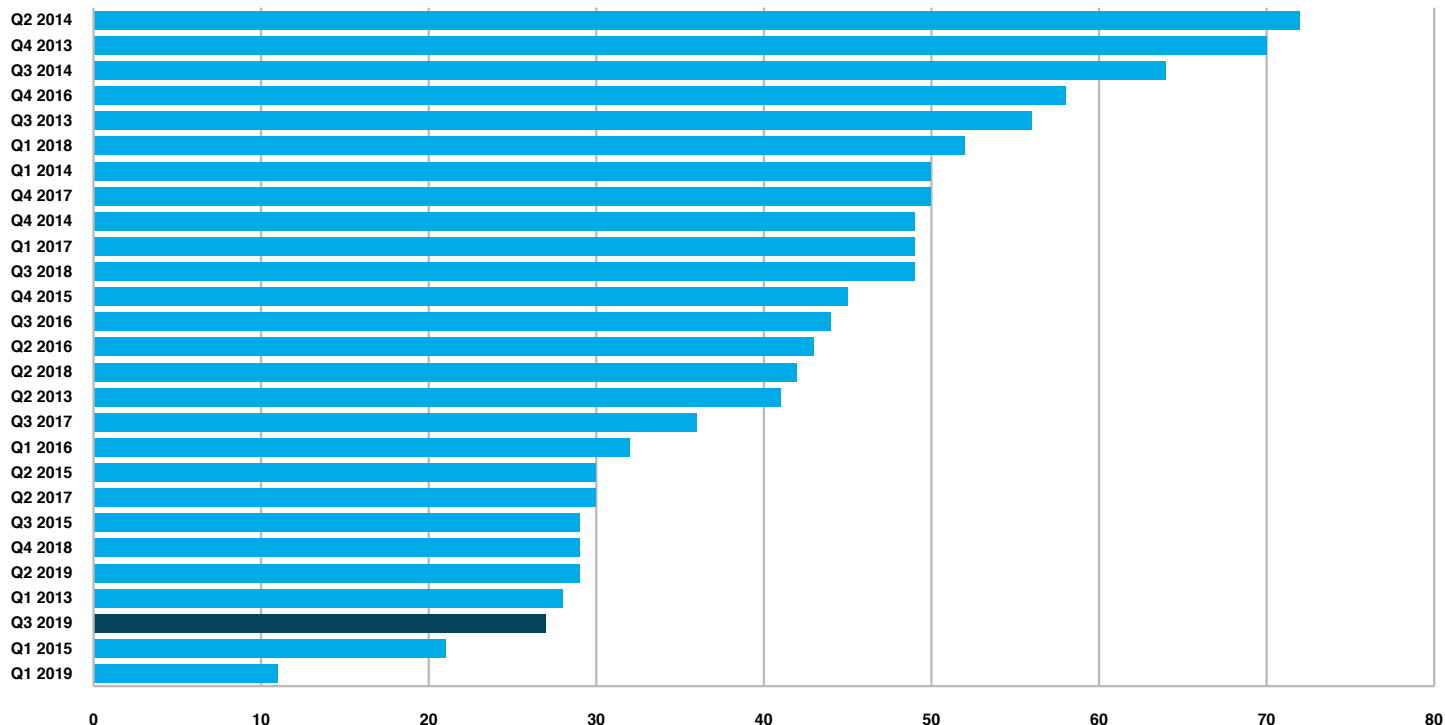
Note for all charts in this section: Data sourced from [Evaluate Energy M&A and Deal Analytics Database](#). The charts only refer to deals announced before the end of each quarter.

1 - Quarterly upstream deal values 2013 - 2019 (\$ billion)

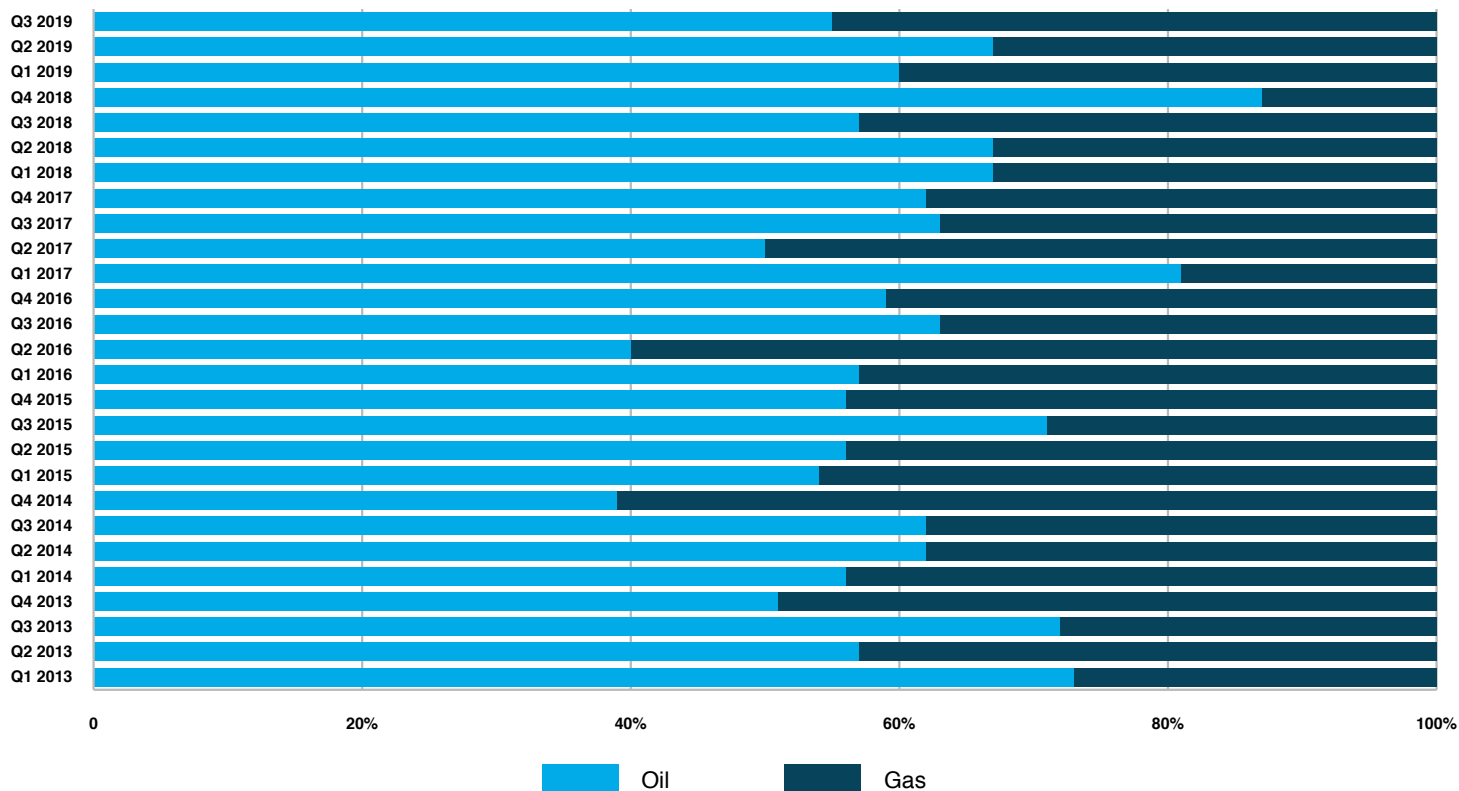


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2 - Number of deals over \$100 million, 2013-2019

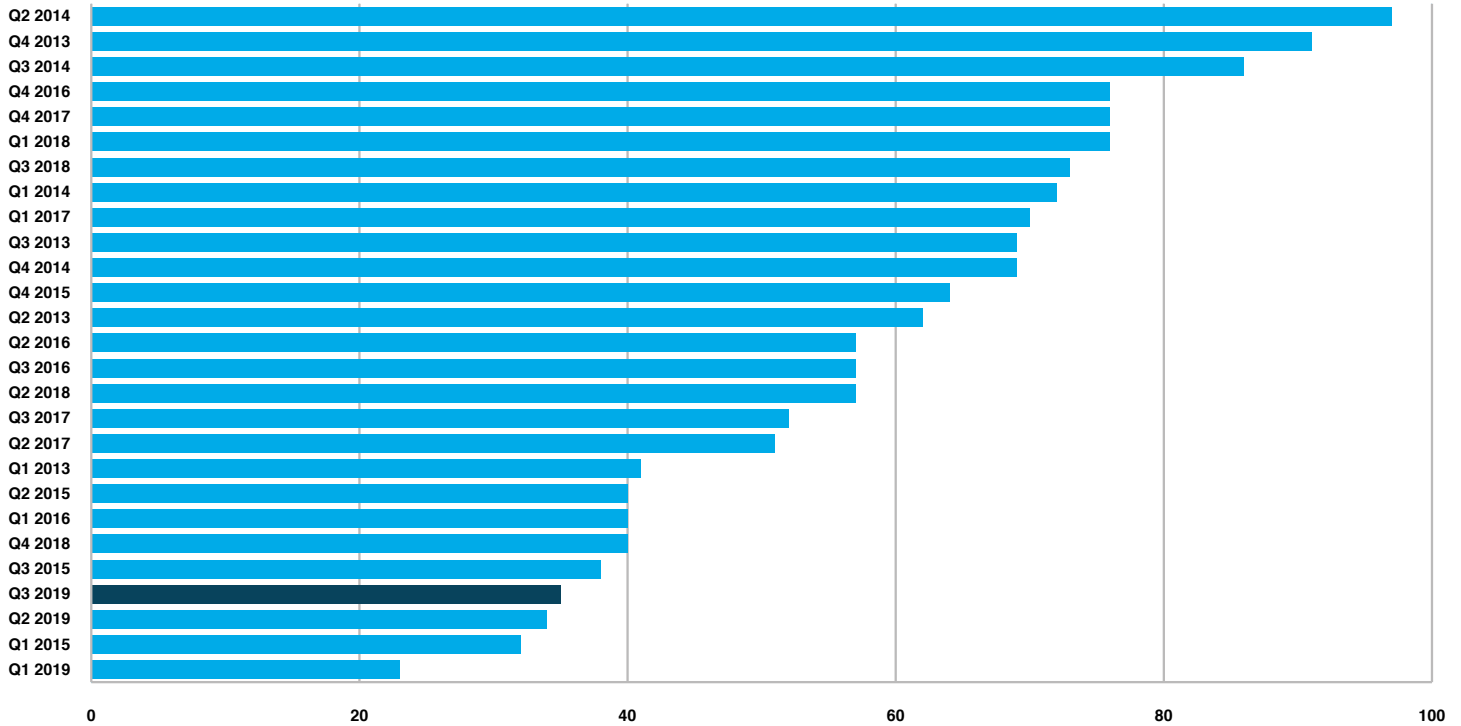


3 - Deals over \$100 million 2013-2019 - Oil weighted assets vs Gas weighted assets

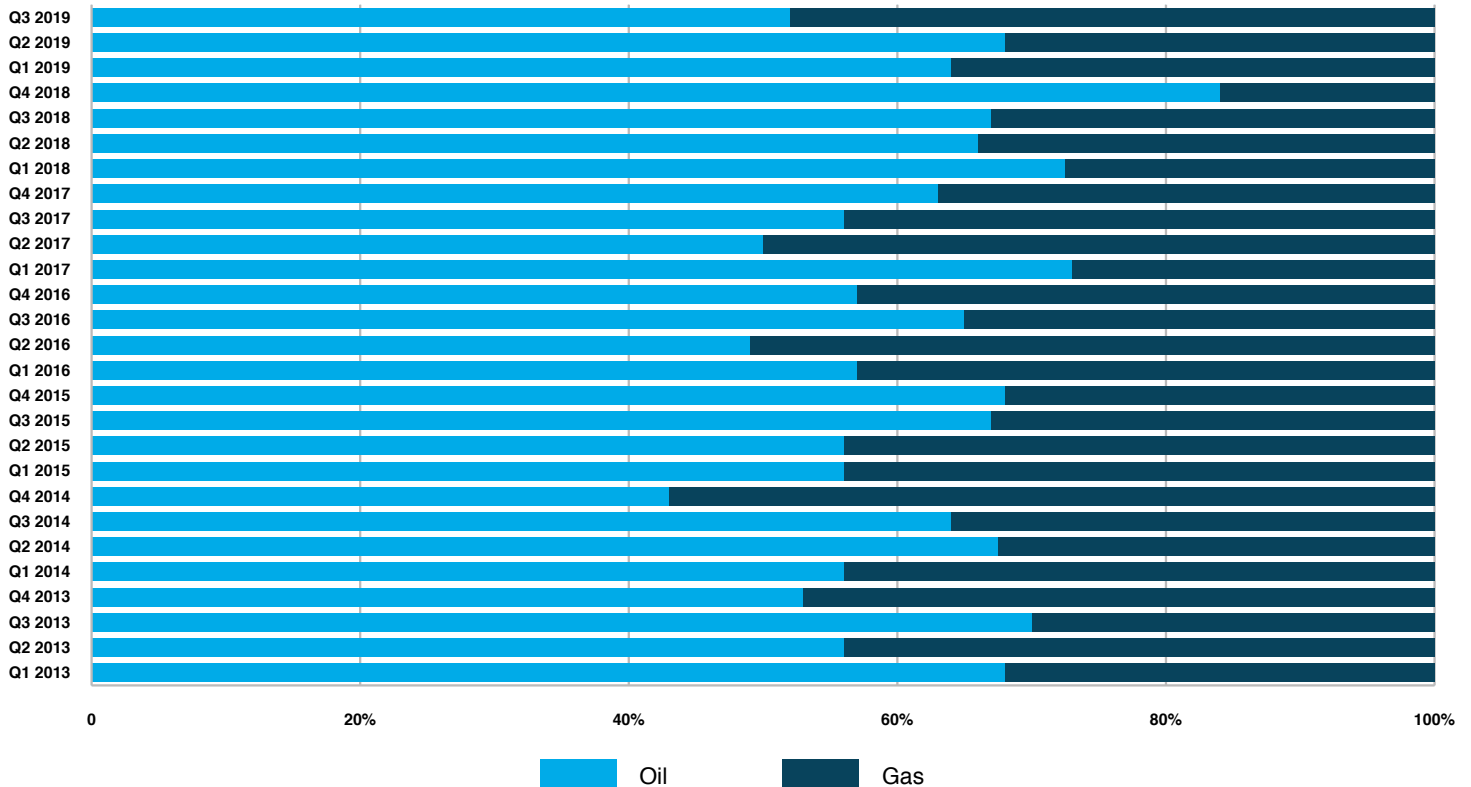


# M&A in Q3 2019 – Activity Overview

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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