

# ***THE TREND AND OUTLOOK OF GLOBAL UPSTREAM OIL AND GAS M&A MARKET***

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## **Overview**

The performance of global upstream oil and gas M&A market is a crucial indicator of exploration and development trend and strategies of leading companies. By analysing current characteristics and forecasting future trend of global upstream oil and gas M&A market helps oil companies to spot suitable and optimal assets for purchase or divest. This paper talks about the current situation and future outlook of the market and it consists three parts.

First, it introduces the general situation of the 2018 global upstream oil and gas M&A market. This year, the total deal count was 248 (transaction value larger than 10 million USD), which was slightly smaller than that of last year. It is worth noting that the US contributed the most to the total transaction value and deal count, making up nearly 60% of the total global transaction in 2018. Besides, tight oil has been the most popular asset type since 2016 and the transaction amount hit record high this year.

Second, it summarizes four characteristics of the global upstream oil and gas M&A market this year. Firstly, the unit price remained low even though it increased to some extent this year. In 2018, the implied proved reserves value per barrel was \$6.7, which rose 15% of that of last year but still only half of the number in 2014. The situation was generated by two sides. On one hand, there was an expectation gap for future oil prices between sellers and buyers. Buyers were not eager to purchase in current stage since they considered a decreasing oil price in the future. Nevertheless, sellers hoped to ask for a better price for they were optimistic for the future oil price. Thus, it was hard to reach a consensus in the market. On the other hand, buyers didn't rush to the market for the reason that there were plenty of assets for sale currently. Secondly, the Permian basin in the US was the most high-profile region of the M&A market. The total transaction value generated in this basin was 37 billion, making up 31% of the total global value. The US tight oil production is very sensitive to oil price. Therefore, the production of tight oil mounted and the M&A activities became more dynamic following the surging oil prices during the first ten months this year. Thirdly, the international oil companies (IOCs) were more well targeted. Generally, IOCs were less active in both purchasing and divesting since the total transaction value plunged compared to the number of last year. However, IOCs were more purposive for they focused more on adding up their core assets and divesting non-core ones. For instance, shell acquired mainly deep-water and LNG assets, which was consistent with its company strategies, and divested those dispersed, small and mature blocks. Fourthly, government award heated up with deep-water and tight oil assets as the most popular asset types. In 2018, the total value of government award reached 7.16 billion, a 63% increase compared to 2017. Deepwater accounted for 88% among all the assets types and the newly awarded blocks were mainly located in Brazil, Mexico, the US Gulf of Mexico and Canada. IOCs, depending on their leading technologies and rich experience, became the major successful bidders. The reasons for their bidding involvement include abundant recoverable oil and gas resources, outstanding production performance and optimized fiscal terms of resource countries. In addition, the Permian award also attracted people's attention since this was the first time that the US government awarded unconventional blocks on public land.

Third, the paper proposes three aspects of M&A trend in 2019. To begin with, M&A focusing on the US tight oil will become more active. Currently the Permian basin is suffering from the transport bottleneck. However, it will be solved and the transport capacity is supposed to increase by 2 million per day next year since 3 new pipelines will be constructed successfully. In this way, more wells will be drilled and more investment will be attracted. Next, the government award in South America will be more prosperous. Nowadays, the major countries for deep-water award in South America include Brazil and Mexico. By witnessing their success, other neighbouring countries, including Argentina and Peru, have expressed their willingness to open local resources for exploration. Argentina announced that it would conduct its first round of deep-water bid this year and many IOCs already expressed their interest. Finally, company strategies will have greater influence on the M&A movement as for IOCs. Compared to other smaller-sized oil and gas companies, IOCs stick to fundamental company strategies no matter how oil price goes. For example, Total and shell will increase the ratio of deep-water asset acquisition depending on their deep-water strategies. Meanwhile, ExxonMobil is expected to purchase more US unconventional assets.

## **Methods**

The paper adopted interdisciplinary research, case study and statistical analysis methods.

## **Results**

By analysing current characteristics and forecasting future trend of global upstream oil and gas M&A market helps oil companies to spot suitable and optimal assets for purchase or divest. This paper analyses the current situation of the M&A market and proposes the outlook and forecast for the trend next year.

## **Conclusions**

There were four characteristics of the global upstream oil and gas M&A market this year. First, the unit deal price increased to some extent but still remained low. Second, the Permian basin in the US was the most high-profile region globally. Third, IOCs were more well targeted. Fourth, government award heated up with deep-water and tight oil assets as the most popular asset type. Based on the current situation of the upstream M&A market this year and company strategies of major oil companies, this paper proposes three forecasts of the M&A market next year, namely US tight oil M&A will become more active, the government award in South America will be more prosperous and IOC strategies will have greater influence on the M&A movement.