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Rosneft, BP deals in Q4 drive international oil and gas M&A activity in 2016

NOCs dominate sellers and account for 85% or \$44 billion of \$51 billion in 2016 deals

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- 248 international (outside North America) deals totaling \$51.3 billion in 2016, compared to 260 deals for \$107.6 billion in 2015 (including the \$82.7 billion Shell/BG deal) and 287 deals for \$56.8 billion in 2014.
- Deal values totaled \$32.9 billion in 4Q16, driven by four Rosneft deals and four BP deals totaling \$24.3 billion and \$4.0 billion, respectively.
- Concentrated buyer group in 2016 where top 10 buyers accounted for 21 deals totaling \$43.0 billion – representing more than 85% of total deal value in 2016.
- Rosneft was the most active buyer and seller in 2016 despite international sanctions, inking three acquisitions totaling \$10.9 billion and six sales totaling \$16.1 billion. In aggregate, Rosneft accounted for more than 50% of the total international deal value in 2016.
- BP accelerates international growth and was the most active IOC in 2016 – announcing four acquisitions totaling \$3.9 billion in the last month of 2016, which was on top of its \$1.7 billion country merger with Aker in Norway.
- Large-scale North American private equity again remained on the sidelines in 2016, aside from one deal in the North Sea.
- Looking forward, the bid/ask spread remains high in the international upstream market despite cautious industry optimism that the OPEC agreement will stabilize commodity prices in 2017.
- It remains to be seen if the wave of deal activity in late 2016 is the start of a new and sustained M&A cycle that can unlock the significant overhang of asset inventory globally.
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[PLS Inc.](#) (“PLS”), a leading Houston-based oil and gas research firm, announces that merger and acquisition activity in 2016 for the international upstream oil and gas sector (outside of North America) \$51.3 billion in 218 deals and compares to \$107.6 billion (\$25.0 billion excluding the Shell / BG deal) in 260 deals in 2015 and \$56.8 billion in 287 deals during the much higher-priced 2014 environment.

M&A activity was up sharply in 4Q16 to \$28.3 billion accounting for 55% of the year’s total in anticipation of firming oil prices and tightening by OPEC which on November 30 formally approved a 1.2 MMbbl/d cut beginning January 1, 2017. In addition, at the time, non-OPEC members agreed to an additional 0.6 MMbbl/d cut lead by a Russian agreement to cut 0.3 MMbbl/d. Saudi Arabia has signaled an intention to push prices above \$60/bbl.

Unlike the US market, where capital is readily available for the right E&P deal, the debt and equity capital markets for international upstream M&A, principally transacted in London, remain constrained and are further weighed down by Brexit and broader financial and geopolitical concerns. As such, all but the largest

cash-rich buyers have remained on the sideline, preferring to weather the downturn with their existing portfolios rather than expand via M&A.

Rosneft dominates dealmaking in 2016

Rosneft's dealmaking on both sides of the table drove over half of 2016's \$51.3 billion in international deal value as the company inked nine deals totaling \$28.8 billion. On the buy side, Rosneft acquired the Russian government's majority stake in Bashneft for \$10.7 billion, a 30% stake in ENI's Zohr gas discovery in Egypt for \$1.6 billion and a \$500 million deal with PDVSA in Venezuela. On the sell side, Rosneft sold a 19.9% equity stake to the Qatar Investment Authority, in partnership with Glencore, for \$10.9 billion; stakes in its prized Vankor and TASS fields to ONGC and an Indian consortium for \$4.1 billion; and smaller deal with Beijing Gas for \$1.1 billion.

Outside of Russia, deal activity was well distributed regionally, with regional values in the multi-billion ranges and above 20 deals each (except the Middle East, which had 12).

International Oil & Gas M&A (US\$B)

Region	2014	2015	1Q16	2Q16	3Q16	4Q16	2016
Africa	\$7.7	\$4.9	\$0.3	\$0.0	\$0.6	\$3.1	\$4.0
Asia	\$9.6	\$3.3	\$0.0	\$0.2	\$0.0	\$1.3	\$1.6
North Sea (incl. Europe)	\$16.3	\$3.9	\$1.7	\$2.4	\$0.2	\$1.0	\$5.2
Former Soviet Union	\$5.4	\$9.0	\$3.4	\$0.0	\$1.0	\$22.7	\$27.1
Middle East	\$1.0	\$0.2	\$0.0	\$0.0	\$0.5	\$2.2	\$2.7
Oceania	\$5.4	\$3.1	\$0.0	\$0.0	\$2.9	\$0.2	\$3.1
South/Central America	\$11.4	\$0.6	\$0.9	\$1.0	\$3.1	\$2.4	\$7.5
Multi-region	\$12.9	\$82.7	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total	\$69.7	\$107.7	\$6.3	\$3.8	\$8.3	\$32.9	\$51.3

Source: PLS Global M&A Database

Deal activity driven by small group of players

Deal activity in 2016 was concentrated by the top 10 buyers and top 10 sellers, which accounted for a respective 21 and 24 transactions and nearly 85% of the total international deal value. "Large IOCs, in contrast to the Shell/BG megadeal in 2015, pursued bolt-on acquisition strategies targeting large resource opportunities internationally," said PLS' Managing Director Brian Lidsky, "such as Statoil and Total's multi-billion deals with Petrobras in Brazil, BP's farm-ins with ENI in Egypt and Kosmos in West Africa, and Exxon's proposed \$2.4 billion corporate acquisition of Canadian-listed InterOil with assets in Papua New Guinea. Indian companies, led by the Oil India/India Oil consortium, found success in Russia by acquiring stakes in several major Russian projects for more than \$5.0 billion."

Top 10 Buyer / Seller in International Oil & Gas M&A in 2016 (US\$B)

Top 10 Buyers	Value	Deals	Top 10 Sellers	Value	Deals
Rosneft	\$12.7	3	Rosneft	\$16.1	6
Qatar Investment Authority, Glencore	\$10.9	1	Bashneft	\$10.7	1
BP	\$3.9	4	Petrobras	\$5.6	4
Oil India; Indian Oil; Bharat Res.	\$3.1	2	InterOil Corp	\$2.4	1
Statoil	\$3.1	5	ADNOC	\$2.2	1
ExxonMobil	\$2.4	1	ENI	\$2.1	2
Total	\$2.2	1	BP	\$1.8	2
ONGC Videsh	\$1.9	2	Gujarat State Petroleum	\$1.0	1
DNO	\$1.5	1	OMV	\$0.9	4
Beijing Enterprise Holdings	\$1.1	1	Kosmos Energy	\$0.9	2
Total	\$43.0	21	Total	\$43.7	24

Source: PLS Global M&A Database

NOCs dominated within the top 10 seller group, accounting for 24 deals totaling \$43.7 billion, or more than 85% of the total international deal value. Rosneft and Petrobras were the most active sellers with 10 deals collectively as both companies netted \$21.7 billion by selling stakes in major domestic projects to shore up balance sheets and meet political directives.

Top 10 International Oil & Gas Deals in 2016 (US\$B)

Date	Buyer	Seller	Value	Region	Country	Asset Type
12/7/2016	Qatar Investment Auth.;	Rosneft	\$10.9	FSU	Russia	Producing
10/12/201	Rosneft	Bashneft	\$10.7	FSU	Russia	Producing
7/29/2016	Statoil	Petrobras	\$2.5	S. America	Brazil	Discovery
7/21/2016	ExxonMobil	InterOil	\$2.4	Oceania	PNG	Development
12/21/201	Total	Petrobras	\$2.2	S. America	Brazil	Multiple
12/17/201	BP	ADNOC	\$2.2	Middle East	UAE	Producing
3/16/2016	Oil India; Indian Oil; Bharat	Rosneft	\$2.0	FSU	Russia	Producing
12/12/201	Rosneft	ENI	\$1.6	Africa	Egypt	Discovery
6/10/2016	DNO	BP	\$1.5	North Sea	Norway	Producing
11/7/2016	Beijing Enterprises Holdings	Rosneft	\$1.1	FSU	Russia	Producing

Source: PLS Global M&A Database

Looking Forward in 2017

It remains to be seen if the wave of deal activity in late 2016 is the start of a new and sustained M&A cycle that can unlock the significant overhang of asset inventory globally. The bid/ask spread remains high in the international upstream market despite cautious industry optimism that the OPEC agreement to cut

production will stabilize commodity markets in 2017. Pricing stability is a critical component to a healthy deal market while price shocks or systemic uncertainty tend to keep players sidelined.

Unlike the US market, where capital is readily available for the right E&P deal, the debt and equity capital markets for international upstream M&A, principally transacted in London, remain constrained and are further weighed down by Brexit and broader financial and geopolitical concerns. As such, all but the largest cash-rich buyers have remained on the sideline, preferring to weather the downturn with their existing portfolios rather than expand via M&A. Large-scale acquisitions by North American private equity has continued to be elusive in 2016, aside from Blackstone-backed Siccar Point's transaction in the North Sea, although this remains a potent and untapped buyer group.

As prices recover, PLS forecasts continued strong appetite by the larger IOCs to acquire "legacy-building" assets ahead of less nimble or capital-constrained NOCs. That said, PLS expects the global upstream deal market to continue to be led by US deal activity, where the flexible and lower-risk unconventional resource base favors asset management in a volatile price environment. This is in stark contrast to international E&P, which increasingly has to compete with US opportunities for acquisition and development capital but with the added complexities of longer-lead project development time, remote locations and associated above-ground risks.

PLS Inc. is a leading Houston-based oil and gas information and advisory firm that specializes in insightful real-time research for a global client base of both industry and investment professionals. Flagship products include the [Global M&A Database](#), [docFinder](#) and [Capitalize](#) along with specialty industry [reports](#). PLS Inc., through its [PLS Energy Advisors Group](#), is also a leading transaction firm and in 2016 closed over 35 oil and gas deals across the globe. For more information, contact Ali Rizvi at ali@plsx.com or call 713-600-0115.

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