

Perspective in NATURAL RESOURCES

A FEATURE EXAMINING THE ROLE OF PRIVATE EQUITY IN THE NATURAL RESOURCES SECTOR.

Low oil prices continue to cause pain in the oilfield services sector. As the current supply glut leads big oil producers to slow production, services companies are left competing for a shrinking number of oil projects.



Since 2015, oil producers have pulled back more than \$200 billion in spending, reducing the number of projects available to a quarter or even a fifth of usual levels, [the Wall Street Journal reports](#). Facing intense pressure over pricing, falling stock prices and heavy quarterly losses, services firms have been forced to slash costs wherever possible, from mass layoffs down to changing the color of the paint on underwater equipment. Many firms are paring down their operations and exiting certain markets.

As the sector continues to contract, it grows ripe for consolidation. Halliburton is set to merge with Baker Hughes in a mega-deal worth \$35 billion. And in August, Schlumberger [acquired](#) its smaller rival Cameron International in a deal valued at \$12.7 billion in cash and stock. The deal will enable the oil services giant to cut operating costs and offer a more complete package of services, according to reports. However, many potential acquirers have themselves been hit hard by the prolonged period of low oil prices, and are not currently in a position to buy, [the Houston Chronicle reports](#).

With the bid/ask spread narrowing as the slump continues, private equity firms may fill the void. Recent private equity successes in the North American shale oil sector have led to renewed demand from investors for energy deals, and fundraising has been strong. As of June, Carlyle had over \$10 billion for energy deals, Blackstone had around \$8 billion and Warburg Pincus had a \$4 billion global energy fund, [the Wall Street Journal reports](#). Carlyle International Energy Partners

managing director Marcel van Poecke told the *Wall Street Journal* that the next two years would be “a very good investment period”, as it looks for deals in the hard-hit oilfield services sector, as well as upstream assets in the North Sea and producing fields in Nigeria and South East Asia.

As makers, seller and leasers of equipment, oilfield services companies are less risky targets for private equity firms than exploration and production companies. Oilfield services investors include big funds like Carlyle Group, KKR, Riverstone and Blackstone; specialist funds such as First Reserve, Blue Water Energy and Limerock; and mid-market funds including LDC, Inflexion and Phoenix Equity Partners, [according to Digital Energy Journal](#), an online energy newsletter.

One bright spot for oilfield services companies could be India, where, in contrast to the global trend, upstream investments are increasing. State-owned Oil and Natural Gas Corp is set to invest \$3.7 billion in six new oilfields, and increase its output by 11 percent, according to *Oil Price*, an online newsletter. But this will not be enough to sustain the number of oilfield services companies in the market. If oil prices do not recover and production is not ramped up again soon, cutting costs will not be enough—many oilfield services companies will have to merge or face bankruptcy, spelling opportunity for private equity firms.



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