

PErspective in NATURAL RESOURCES

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

Consolidation is picking up in the midstream oil and gas sector as oil prices slowly rise and several players look to M&A to achieve growth.



Year-over-year, M&A activity has remained much the same, but there has been a significant uptick in dealmaking in the third quarter, driven in part by crude's price topping \$50 a barrel for several consecutive weeks, according to energy newsletter *Rigzone*.

In late November, Sunoco Logistics announced it would acquire Energy Transfer Partners—which oversees the controversial Dakota Access Pipeline Project—in a merger worth \$20 billion. Some observers believe this project, and the midstream energy sector in general, may benefit from the incoming Trump administration's proposals to roll back regulation and boost energy infrastructure. "Pipelines are going to be winners under Trump," according to CNBC's Jim Cramer.

Since external financing sources dried up following the 2014 drop in oil prices, master limited partnerships (MLPs)—the energy sector's version of real estate investment trusts (REITs)—have been forced to spend within their cash flows, leaving M&A their only route to growth, according to *Mergermarket*. This opened up opportunities for PE firms, which have built up a lot of dry powder designated for energy deals over the last two years.

Deals are taking many forms. Smaller players are teaming up to achieve scale: In October, ArcLight Capital Partners oversaw the merger of two of its publicly listed portfolio companies, American Midstream Partners and JP Energy Partners, in an all-stock deal, creating a midstream MLP worth \$2 billion, *Reuters* reports.

Large companies, meanwhile, are targeting growth by buying sizeable assets. Independent liquid petroleum products pipeline operator Buckeye Partners announced plans to acquire a 50 percent equity interest in marine terminal business VTTI for \$1.15 billion, in a deal set to close in January 2017. Others are merging to create synergies. Energy Transfer Partners, in addition to the above merger, will acquire the general partner of PennTex Midstream Partners for \$640 million, coupling ETP's infrastructure with PennTex's untapped volumes.

PE firms are ready to deploy their dry powder in a market that is short on capital, according to *Oil & Gas 360*. Five Point Capital Partners' CEO David Capobianco told the *Houston Business Journal* at the end of October that now is the time to start deploying the rest of the capital it raised for midstream deals prior to 2014, before it turns to raising a new upstream fund. The PE firm has two funds with \$450 million combined and is eyeing opportunities in Texas' Permian Basin and the Eagle Ford.

Tailwater Capital, a PE firm focused on middle-market energy sector investments, recently injected \$100 million into its new portfolio company

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The largest third quarter energy deal sees General Electric's oil and gas business merge with Baker Hughes, creating the second largest global oil and gas company after Schlumberger, worth \$32 billion in annual revenue. This is the first mega-deal after the collapse in oil prices saw deal size shrink considerably—and after regulators blocked a tie-up between Halliburton and Baker Hughes a year ago. With most oil and gas companies trailing far behind the top three, M&A will appeal to many smaller firms as they seek scale to compete, *Reuters* reports. Traditional financing may remain hard to come by until commodity prices see a more sustained recovery, presenting opportunities for PE firms.



Producers Midstream, which will support operators in greenfield opportunities in Texas, Oklahoma and New Mexico. And PE-backed NorthStar Midstream is said to be among the bidders offering between \$80 million and \$100 million for Martin Midstream Partners' Corpus Christi, Texas crude terminal, *Reuters* reports.

Carlyle Group has also raised a \$2.8 billion credit fund, recommitting itself to the energy markets, according to *The Middle Market*. With M&A on the rise and traditional financing opportunities limited, the midstream oil and gas market presents lots of opportunities for PE firms with an interest in the sector.

Sources: *CNBC, Forbes, Fortune, Houston Business Journal, Mergermarket, The Middle Market, Oil & Gas 360, Oil & Gas Financial Journal, Oil & Gas Investor, Oil Pro, Reuters, Rigzone*

Natural Resources Industry Contacts:

CHARLES DEWHURST

Houston
713-548-0855 / cdewhurst@bdo.com

TOM ELDER

Houston
713-407-3959 / telder@bdo.com

RICHARD BOGATTO

Houston
713-407-3723 / rbogatto@bdo.com

VICKY GREGORCYK

Houston
713-407-3955 / vgregorcyk@bdo.com

ROCKY HORVATH

Houston
713-986-3150 / rhorvath@bdo.com

JIM JOHNSON

Dallas
214-665-0614 / jwjohanson@bdo.com

RAFAEL ORTIZ

Houston
713-986-3176 / rortiz@bdo.com

CLARK SACKSCHEWSKY

Houston
713-986-3101 / csackschewsky@bdo.com

CHRIS SMITH

Los Angeles
310-557-8549 / chsmith@bdo.com

ALAN STEVENS

Dallas
214-665-0786 / astevens@bdo.com

JIM WILLIS

Houston
713-986-3115 / jwillis@bdo.com

Private Equity Industry Contacts:

KAREN BAUM

Dallas
214-969-7007 / kbaum@bdo.com

FRED CAMPOS

Miami
305-420-8044 / fcamos@bdo.com

LENNY DACANAY

Chicago
312-730-1305 / ldacanay@bdo.com

JERRY DENTINGER

Chicago
312-239-9191 / jdentinger@bdo.com

LEE DURAN

San Diego
858-431-3410 / lduran@bdo.com

ERIC FAHR

McLean, VA
703-582-4293 / efahr@bdo.com

JOE GORDIAN

Dallas
214-969-7007 / jgordian@bdo.com

RYAN GUTHRIE

Costa Mesa
714-668-7385 / rguthrie@bdo.com

SCOTT HENDON

Dallas
214-665-0750 / shendon@bdo.com

TUAN HOANG

Los Angeles
310-557-8233 / tmhoang@bdo.com

KEVIN KADEN

New York
212-885-8000 / kkaden@bdo.com

TODD KINNEY

New York
212-885-7485 / tkinney@bdo.com

MATT SEGAL

Chicago
312-616-4630 / msegal@bdo.com

DAN SHEA

Los Angeles
310-557-8205 / dshea@bdocap.com

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