

PErspective in NATURAL RESOURCES

A FEATURE EXAMINING THE ROLE OF PRIVATE EQUITY IN THE OIL AND GAS SECTOR.

Dealmaking is finally heating up in the oil and gas sector as private equity buyers look to deploy substantial capital raised for energy deals—and then banked—during the last couple of years' market rout.



Natural gas and crude prices have recently risen above the multiyear lows plumbed earlier in 2016. As hopes of a recovery start to rise, investors are beginning to find value in oil and gas sector acquisitions once more.

Blackstone Group has invested nearly 20 percent of its \$9 billion energy fund—one of the largest in the world—since March this year, mostly in oil and gas deals, according to *The Wall Street Journal*. According to Fitch Ratings, PE firms were responsible for a quarter of the \$30 billion paid for large drilling properties since September 2015. Data provider Preqin estimates that PE firms have \$162 billion set aside specifically for energy deals. Funds with broader mandates contain billions of dollars more that could also be used for such deals, *The Wall Street Journal* reports.

Smaller mid- and upstream companies are attractive targets. American Securities closed an all-cash deal for equipment maker Ultrerra Drilling Technologies in July, in a deal valued at under \$500 million. The PE firm had spent more than a year looking at firms that provide the equipment and services needed to pump oil and gas, but had not found any value until now, according to *The Wall Street Journal*.

Deals are not confined to any particular region. PE firms were behind the recently announced merger between Scotland-based oil and gas firms Centurion Group and ATR Group. Centurion's backer, SCF Partners, will become the majority shareholder in the newly formed group, while ATR's owner, NBGI Private Equity, retains a stake. The group will have a combined turnover of more than \$100 million, according to *Energy Voice*.

Western Canada is also proving attractive for PE firms looking for bargains before an anticipated oil price recovery next year. Newly created junior oil and gas producer Rising Star Resources raised \$25 million from Canadian PE firms Lex Capital and 32 Degrees Capital to finance a \$30 million purchase of oil-weighted production from Calgary junior Petrus Resources, according to *Business News Network* (BNN), a Canadian business and financial news channel. The public markets remain out of reach for small firms such as Rising Star Resources, but PE is increasingly willing to step in. 32 Degrees has done two new deals and two top-ups of existing deals in 2016, after only one financing in 2015, BNN reports.

Corporate buyers are also seeking new deals. ExxonMobil, the world's biggest natural resources company, offered more than \$2.5 billion for Papua New Guinea firm InterOil and a stake in its undeveloped gasfield Elk-Antelope, outbidding Australia's Oil Search, which was backed by French oil giant Total. Energy companies have raised more than \$30 billion through secondary stock offerings since early 2015, according to *Reuters*, which means PE firms will face stiff competition for deals as they try to put their dry powder to work.

Sources: *Business News Network, Energy Voice, Reuters, The Wall Street Journal*

FUTURE PERSPECTIVES: WHAT'S NEXT FOR NATURAL RESOURCES INVESTORS?

With rising oil and gas prices signaling the worst of the slump may be over, PE firms are seeking to cash out their investments. Yorktown Partners-backed Extraction Oil and Gas, and Vantage Energy, backed by Quantum Energy Partners, Riverstone Holdings and Lime Rock Partners, have both filed confidential registrations with the SEC in advance of going public. More than a dozen such firms are currently considering an IPO, especially in areas with a relatively low cost of drilling, *Reuters* reports. If the deals go ahead, they will end a yearlong IPO drought in the sector. But the firms could attract buyers before they get that far. PE owners might prefer outright sales, which would enable them to fully realize their investments.



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