INVESTMENT

New waves of activity

While 2017 was a stand-out year for North Sea deal-making, 2018 was marked by a pause for breath. But the investment scene is gaining momentum this year, according to a leading analyst at PwC. *Brian Davis* reports.

After buying ConocoPhillips' North Sea assets in a $2.7bn deal, Chrysaor became operator of the Britannia (pictured) and J-Area hubs in the Central North Sea

Photo: ConocoPhillips

From an exploration and production perspective, E&P activities tend to come in waves, explains Alan Barr, Head of Deals Aberdeen, at PWC. '2016 marked deals like Siccar Point's acquisition of OMV (backed by private equity funds managed by Blue Water Energy and Blackstone Energy Partners). Then Israeli conglomerate Delek Group's acquisition of Ithaca Energy in early 2017. This activity coincided with a time when the oil price was picking up from around $30/b in January 2016 and started pushing towards $50/b. That's a good time to buy in the cycle. Though there was volatility, there was sufficient stability for buyers and sellers to reach agreement.'

By 2017, there were some some significant North Sea deals. Chrysaor's $3bn acquisition of Shell's UK North Sea assets is a case in point. Chrysaor's principal financial backer was Harbour Energy, an energy investment vehicle managed by EIG Global Partners. That August, Total bought Maersk's oil business in a $7.45bn deal, taking control of Maersk's assets in the UK sector of the North Sea, including the Culzean gas field. While Ineos bought the DONG oil and gas business, covering reserves in the Danish, Norwegian and UK continental shelves in a $1.05bn plus $250mn contingent deal.

In February 2018, Neptune Energy Group boosted its footprint in the North Sea through the €4.7bn acquisition of Engie E&P International, backed by Carlyle International Energy Partners, China Investment (CIC) and CVC fund VI.

'In a sense, 2018 marked a pause for breath in terms of E&P acquisitions,' says Barr. 'A lot of negotiations were underway in the second half of the year, but less deal completions. Early 2019 we felt there were more completions to come, with $1bn plus transactions in the pipeline.'

Negotiations between ConocoPhillips and Ineos to acquire the US major's North Sea assets collapsed in January 2019. Then, in April 2019, Chrysaor agreed to buy ConocoPhillips' North Sea assets in a $2.7bn deal, making it the top UK producer. Chrysaor had already demonstrated its ability to take over older assets and boost production – as shown by its revitalising efforts in the Greater Armada Area, which was due to be decommissioned before Chrysaor acquired it from Shell. A similar approach is anticipated as Chrysaor becomes operator of the Britannia and J-Area hubs in the Central North Sea. Chrysaor has also gained a stake in the Clair field, as well as its existing interest in Schiehallion.

In May 2019, Delek's Ithaca Energy agreed to buy Chevron's Central North Sea business in a $1.6bn deal, including the Britannia, Elgin/Franklin and Jade non-operated projects. And Marathon Oil is divesting its North Sea business to RockRose Energy.

'We are looking at a second wave of investment,' remarks Barr. 'The sellers have been major American E&P companies and independent oil companies (IOCs), and the buyers have been a mix of privately-backed vehicles like Siccar Point, Chrysaor and Neptune Energy Group.'

He continues: 'Private equity investment in the North Sea is not new. But in previous investments they tended to focus on late life assets. The latest wave of private equity ownership has been on a slightly different scale. Some of the bigger funds have made their first investments in E&P, aiming to buy and build on that investment by merger and acquisition – as we see on the Chrysaor/Shell deal and follow-up with ConocoPhillips.'

The timing has been superb for the buyers, as the oil price climbed from $50/b to $70/b. Most of the deals were struck at the lower price, so the new owners have gained significant cash flow. The timing of these deals meant that even between deals being signed and completing, increasing oil prices allowed buyers to degear their acquisitions significantly. This has helped create fire power for follow-on deals.

Different strategies are evolving. Companies like Chrysaor are predominantly interested in redeveloping mature assets, in some cases extending the field life of fields that faced cessation of production. Whereas companies like Siccar Point are focused on putting together a portfolio of upstream interests with strategic territories in the North Sea, like West of Shetland, that will move into production in years to come and create huge cash flow.

'Private equity has made platform investments that feed a number of really significant billion dollar plus transactions. However, there is a shortage of that level of transaction in the market', notes Barr. There is increasing activity in the $500mn territory, attracting independents and smaller private equity vehicles. A number of management teams are active in deal processing alongside other financial backers. But I don't think they will be at the same scale as the earlier players.'

ConocoPhillips is one of several major US oil companies linked with North Sea exit in the last 18 months.

From an international perspective, Barr suggests: 'Generally there's a huge amount of capital that is pointed at upstream opportunities globally. But the US is always the biggest market from a M&A perspective in oil and gas... Private equity tends to be focused on relatively short-term ownership of about five years.'

Is consolidation important? 'Sure. We expect to see them consolidate assets, buying packages of assets that will be refined with exit in mind down the line, and what type of buyer they will try to appeal to – in terms of mature assets, development assets or both.'

Midstream infrastructure

Infrastructure investment is an interesting issue, says Barr. 'In late-life or mature assets, the infrastructure already exists, but the key issue is keeping it going. In order to maximise economic recovery, the infrastructure needs to be kept in place and be in good repair, so new fields don't become stranded. In recent years, we have seen infrastructure funds wanting to take ownership of key pieces of midstream infrastructure, eg pipelines or terminals. Though there's a lot of capital that can be deployed, there is a shortage of investment opportunities.'

In February 2019, Ineos announced plans to invest £1bn in the UK, including £500mn in the Forties pipeline system (which it acquired in 2017), prolonging the

Announced date	Buyers	Sellers	Key assets	Deal value (in $mn)
30/05/2019	Delek Group; Ithaca Energy	Chevron	UK N Sea producing assets; natural gas	2,000
18/04/2019	Chrysaor Holdings	ConocoPhillips	UK N Sea producing assets; Britannia and J-Block hubs, Clair field; natural gas	2,675
25/02/2019	RockRose Energy	Marathon Oil	UK N Sea producing assets; Gtr Brae and West of Shetland Foinaven dev; oil	140
28/01/2019	Lundin Petroleum	Lime Petroleum	Norway N Sea Rolvsnes and Goddo discoveries; oil	43
08/01/2019	DNO	Faroe Petroleum	Norway, remaining 71.1% of Faroe Petroleum; oil	804
18/10/2018	Polskie Gornictwo Naftowe i Gaz	Equinor	Norway N Sea Tommeliten Alpha field; natural gas	220
17/10/2018	Norwegian Energy Company	Shell	36.8% interest in Danish Underground Consortium; oil	1,900
15/10/2018	Aker BP	Equinor	77.8% in Norwegian N Sea King Lear discovery; natural gas	250
09/10/2018	Aban Offshore Caldera Petroleum	National Iranian Oil Company	UK N Sea oil discoveries; Pardis, Hooman and Yeoman; oil	75
09/10/2018	Hibiscus Petroleum Berhad	Caldera Petroleum (UK)	UK N Sea oil discoveries; Pardis, Hooman and Yeoman; oil	38
27/09/2018	BASF; Joint Op Co; Wintershall	DEA Deutsche Erdoel; LetterOne	Norway, merger to form Wintershall DEA; natural gas	7,192
20/09/2018	Verus Petroleum UK	CIECO E&P (UK); Itochu	UK N Sea Western Isles dev and Hudson field; assoc. export infrastructure	400
07/09/2018	EnQuest	BP	75% in UK N Sea East of Shetlands Magnus field and infrastructure; oil	300
24/08/2018	Ithaca Energy	Dyas; Petrofac	Interests in UK N Sea Greater Stella Area; natural gas	250
13/08/2018	Neptune Energy Group	Apache	Undeveloped UK Central N Sea assets; Seagull dev; oil	70
31/07/2018	Aker BP	Total	Undeveloped discoveries and acreage offshore Norway; oil	205
02/07/2018	Eni; Vår Energi	HitecVision; Point Resources	Norway production and undeveloped assets	1,499
28/06/2018	Neptune Energy Group	VNG Norge; Verbundnetz Gas	Norway offshore oil production and development projects	352
20/06/2018	Bangchak	OKEA	Investment on Norway E&P OKEA; oil	112
20/06/2018	OKEA	Shell	Norway Draugen and Gjøa fields; natural gas	556
24/05/2018	RockRose Energy	Dyas	Non-operated Netherlands producing assets; natural gas	126
30/04/2018	Verus Petroleum UK	Premier Oil	Babbage area assets in the UK N Sea; natural gas	87
04/04/2018	DNO	Delek Group; Faroe Petroleum	15.37% of Faroe Petroleum; oil	136

Table 1: Upstream mergers and acquisitions in the North Sea, valued at >$10mn, April 2018-June 2019 *Source: Transactions database from IHSConnect*

life of the North Sea's main oil and gas artery into the 2040s. Ineos also plans to invest £350mn in a new steam and power plant in Grangemouth, and £150mn in Hull to build a vinyl acetate monomer plant.

Kellas Midstream, formed in 2014 and previously known as CATS Management, changed its name (referring to a Scottish wildcat) in December 2018 to reflect development of a business which includes interests in critical energy infrastructure in the central and southern North Sea, in brownfield and greenfield projects. Kellas is owned by European private equity fund manager Antin Infrastructure Partners. In addition to CATS, assets include development of the Humber Gathering System (HGS) and the Esmond Transport System (ETS). Kellas is helping to fund the new HGS infrastructure alongside Premier (as operator) and partner Dana to serve the Tolmount Main gas field in the southern North Sea.

A year ago, Wren House, the infrastructure investment arm of Kuwait's sovereign wealth fund, KIA, purchased North Sea Midstream partners from Arclight Capital. In 2017, Ancala Midstream Acquisitions acquired Apache's interests in the Scottish Area Gas Evacuation (SAGE) system and the Beryl gas pipeline.

'Deal activity in the oil services sector is still quite low, compared to where it has been historically,' remarks Barr. In 2017, the most significant deal was the £2.2bn acquisition of Amec Foster Wheeler by Wood Group. As part of the deal AmecFW's North Sea assets were sold to Australian engineering firm WorleyParsons. In December 2018, Enermech was acquired by Carlyle Group from Lime Rock Partners, in order to expand the business across global energy, engineering and infrastructure projects.

From an M&A perspective, oilfield services deals are mid-market size of up to $250mn. 'We have not seen this part of the sector come back to previous levels,' says Barr. 'Oilfield services have borne the brunt of cost reductions, low levels of activity and low levels of equipment utilisation. The activity levels have been picking up, but pricing is still very challenging. And shareholders have been reluctant to get into sale processes for these businesses because their earnings were not at a level which would achieve the valuations they were looking for.'

Fortunately, there has been some recovery in the oilfield services sector 'and we expect M&A in mid-market oilfield services will start to pick up in 2019/2020, involving a mix of corporate acquirers and private equity fund investment', notes Barr.

Are the new players introducing new approaches and business models? 'These private equity-backed vehicles are mostly new start-ups themselves. Their business models are targeted at making a strong return on assets that were often starting to become less economical for the IOCs to own. The IOCs operate globally and want to deploy capital in territory that gives them the best return – which might not necessarily be the North Sea. Whereas, the new ownership sees value potential from extending the field life of assets, which will also be great for the service sector. We also see a different approach to decommissioning, and there's probably value to be made from that part of the deal as well.' ●