Global Upstream M&A Transaction Value Increased 40 Percent in 2009, Ending Two Years of Decline, Says IHS Herold Study

Release Date:
Monday, March 8, 2010 8:00 am EST

Terms:
Energy

Dateline City:
NORWALK, Conn.

Large Corporate Transactions in North America and International Oil Deals Represented Majority of Worldwide Deal Value

NORWALK, Conn.--(BUSINESS WIRE)--After two consecutive years of decline, global upstream merger and acquisition (M&A) transaction value increased 40 percent in 2009 to just under $150 billion, according to the annual Global Upstream M&A Review issued by energy research firm IHS Herold, which is part of IHS (NYSE: IHS). Deals in North America accounted for a record high two-thirds of the $150 billion.

The dramatic increase in value was propelled by the two largest corporate takeovers since 2006: ExxonMobil’s $41 billion acquisition of XTO Energy and Suncor Energy’s $21 billion merger with Petro-Canada. A rash of deals by national oil companies (NOCs) and international oil companies (IOCs) jockeying over vast resources in Africa and other international regions also drove the increase.

North American transactions represented 65 percent of the global total, up from 50 percent in 2008. Six of the 10 largest deals in 2009 were North American reserve acquisitions as buyers sought access to massive volumes of long-lived North American unconventional gas and oil sands resources in politically stable areas with minimal exploratory risk. The number of deals outside North America increased for the third consecutive year to an all-time high as companies sought to build oil reserves by accessing world-class discoveries and acquiring small companies exploring in frontier regions.

“Spending on unconventional resources in North America topped $50 billion in 2009, including U.S. onshore shale plays and the Canadian oil sands,” said Chris Sheehan, IHS Herold director of M&A Research. “National oil companies spent record sums on oil-based deals outside of North America, including more than $15 billion by Chinese state-owned entities. Africa fueled international M&A deal growth last year as the region represented nearly 10 percent of global deal value and more than 25 percent of transaction value outside North America in 2009, both record highs,” he added.

Corporate acquisitions comprised 70 percent of worldwide deal value in 2009 and accounted for the five largest transactions, although total corporate deal count held flat near a five-year low. North American corporate transaction value in 2009 quadrupled over the prior year. Unconventional resources, including shale gas and oil sands, were the focus of the two largest deals and four of the top 10 in North America. National oil companies were buyers in four of the 10 largest deals, led by Asian NOCs expanding global upstream holdings in Africa, Canada and the former Soviet Union.

In 2009, acquired proved reserves (90 percent chance of recovery) were approximately 60 percent oil (nearly 80 percent oil excluding the ExxonMobil/XTO transaction) while proved plus probable reserves (50 percent chance of recovery) transacted volumes were more than 50 percent oil. Outside North America, acquired proved reserves were more than 95 percent oil, significantly higher than historical norms of around 70 percent. Natural gas accounted for 65 percent of acquired North American proven reserves, in line with the five-year average.

Outlook for 2010

According to the study, IHS Herold expects that relatively robust crude prices and a continued thawing of the credit markets will positively affect global deal activity in 2010, with more than $20 billion assets on the market and a pool of well-capitalized international buyers seeking to secure supply and grow reserves.

“Despite current soft gas prices, the massive volumes of long-lived North American unconventional gas resources with minimal exploratory risk are extremely enticing for IOCs that seek to replace declining production from mature, conventional basins,” Sheehan noted. “Internationally, we believe strategically driven Asian NOCs will continue their quest to secure global energy supply through the M&A market, with IOCs and independents battling for the same world-class assets.”

Regional Transaction Activity in 2009

U.S.

Major oil companies and European IOCs invested heavily in U.S. onshore shale gas through both asset and corporate
acquisitions in 2009, lifting the percentage of global spending for the U.S. to more than 40 percent of worldwide transaction value. U.S. deal count tumbled to a 10-year-low, primarily due to weak gas prices and tight equity, and credit markets for the small and mid-size exploration and production companies that traditionally fuel market liquidity.

Canada
In Canada, deal activity was sluggish for the second year in a row. The Suncor/Petro-Canada merger comprised more than half of 2009 Canadian transaction value. Asian NOCs were buyers in two of the largest deals. Implied reserve values for oil weighted transactions and the percentage of transacted crude reserves increased, while pricing for gas-weighted assets fell sharply.

Europe
The number of transactions in Europe dipped slightly from the record total in 2008, but was the second highest in 10 years. European utilities and diversified energy companies continued to be active buyers in the North Sea, targeting regional gas supply.

Africa and Middle East
Transaction value for Africa and the Middle East almost doubled year over year to a record high in 2009 as intense competition continued between NOCs and international integrated majors for the region’s world-class oil discoveries. Host governments in Libya and Angola pre-empted high-profile corporate bids and asset bids by Chinese NOCs.

Asia-Pacific
Asia-Pacific accounted for less than five percent of worldwide deal value in 2009, down sharply from 17 percent in 2008. Coal-seam gas transactions accounted for nearly $1.5 billion, or some 30 percent, of total transaction value in the region.

Latin America
Colombia and Argentina accounted for more than half the regional deals last year with substantial investment also focused in Peru. Deal count soared to a 10-year high despite a slight drop in total transaction value.

Former Soviet Union
Acquisition spending in the former Soviet Union accounted for almost 15 percent of worldwide deal value in 2009. Host government NOCs were the acquirers in half of the 10 largest deals while Asian NOCs made significant investments. Deal count rebounded from the previous year’s five-year low, while asset transaction value doubled year-over-year to almost $13 billion.


About IHS Herold (www.herold.com) IHS Herold Inc. is a specialized research and consulting firm focusing on valuation, strategy, and performance measurement of the world’s leading oil and gas companies. IHS Herold closely monitors the world’s energy capital markets and the dynamic merger, acquisition, and divestiture marketplace for energy assets, and is part of IHS Inc. (NYSE: IHS, www.ihs.com), a leading global source of critical information and insight. IHS product and service solutions span four areas of information that encompass the most important concerns facing global business today: Energy, Product Lifecycle, Security and Environment, all supported by Macroeconomics. By focusing on customers first, IHS enables innovative and successful decision-making for customers ranging from governments and multinational companies to smaller companies and technical professionals in more than 180 countries. IHS has been in business since 1959 and employs about 4,100 people in 28 countries.

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English

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