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Cleaner, greener, and leaner strategies drive energy M&A activity

Hogan Lovells Partner, Sarah Shaw, tells Deal Dynamics how shale, renewables and private equity are transforming the deal landscape.

What do you see as the main M&A drivers in the energy sector?

Sarah Shaw: While fundamental factors such as expansion and consolidation continue to play a role, there are a number of more intriguing drivers emerging for M&A in the energy sector. First, big oil is moving into clean energy and new technologies including electric vehicles and battery storage.

For example, last year, BP entered into a strategic partnership with Lightsource, Europe's largest solar development company, in which it has committed to invest US$200m. And in June, it announced that it was buying Chargemaster, the UK's largest electric vehicle charging network.

Another oil major, Total, has recently announced that it is planning to ramp up the amount it invests in renewables.

The second key trend is the emergence of private equity (PE) and other financial buyers in the sector, both in traditional oil and gas and renewable energy.

Are PE firms just dipping their toe in the water or are they really diving in?

Shaw: They're serious and they have made some significant investments.

The North Sea has seen record levels of M&A activity in the last few years driven largely by the influx of PE money. For example, Chrysaor bought a US$3.8bn North Sea portfolio from Shell following its merger with BG (and then increased its portfolio through the acquisition of Spirit earlier this year); Siccar Point, backed by Blackstone, bought US$1bn North Sea assets from OMV; and Neptune, owned by the Carlyle Group and CVC Capital, has been aggressively building up its upstream portfolio including acquisitions this year in Norway and the UK. As the majors continue to pursue their divestment programs, additional mature assets are becoming available creating further M&A opportunities for this new category of oil and gas firm.

PE players are also active in the power and renewable energy sectors, both in mature and, increasingly, emerging markets. Interestingly, Blackstone announced this week that it is launching a new US$1bn energy fund, Zarou, with a geographical focus on Africa and the Middle East.

Are we seeing a move towards more shale deals?

Shaw: Shale deals this quarter were dominated by one mega deal, with BP buying BHP's US shale assets for US$10.5 billion. This was a transformational deal both for the sector and for BP, being the biggest acquisition the major has made in nearly two decades. However, it remains to be seen whether this will be a catalyst for further M&A activity in the US shale sector. Total, for example, has since ruled out a move into US shale.

Across the pond, the development of the UK shale industry has been plagued by political and regulatory challenges as well as fierce public opposition.

The UK's leading shale company, Cuadrilla, has recently been given the go ahead to resume fracking for the first time since 2011, and other companies are expected to follow suit. This could spark a revival of M&A interest in the sector. However, some investors may be wary and choose to wait to see if political obstacles can be overcome and whether shale gas can be produced in commercial quantities in the UK such that it can viably compete with imports from the global market.

What other interesting deals have you seen recently?

Shaw: In addition to those already mentioned, there is currently quite a bit of activity in the North Sea. For example, Chevron is selling a stake in the Rosebank oilfield to Norway's Equinor and, following its acquisition of Maersk earlier this year, Total is now looking to sell a US$1.5bn package of North Sea assets. It will be interesting to see which buyers emerge for Total's assets – the PE funds are likely to be among those interested.

What are the major dealmaking challenges in the sector at the moment?

Shaw: With oil prices at their highest level in nearly four years, and also relatively stable, conditions in the sector are generally ripe for M&A.

The challenges are less energy-specific and rather relevant to all sectors including the rise of protectionism as well as geopolitical uncertainty caused by factors such as the prospect of trade tensions between the US and China and the possibility of a hard Brexit. However, the M&A market is continuing to be surprisingly robust despite these challenges.

In Q3, deal value is up, volume is down in the energy sector. Is this trend likely to continue?

Shaw: The Q3 numbers are largely due to two mega deals – the BP shale gas acquisition already mentioned and the US$13bn takeover of pipeline company APA Group by a Hong Kong consortium.

The rise of the mega deal is something we have observed across all sectors this year. The current high levels of corporate cash and the low cost of financing, coupled with high and relatively stable oil prices, could continue to drive large-scale M&A, even given the on-going geopolitical uncertainty.

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