

# Energy Intelligence Finance

Incorporating *International Petroleum Finance*

Special Reprint of EIF for BoyarMiller. Copyright © 2012 EIG. Unauthorized access or electronic forwarding, even for internal use, is prohibited.

## Good Returns Tempt Private Equity Into US Oil and Gas Sector

Sustained \$100-plus crude prices mean parts of North America's energy sector offer a good rate of return in the current climate, as evidenced by a spate of private equity deals over the past year. Investment bankers predict more such deals to come.

In a recent note to clients, US bank Wells Fargo noted that while not all exploration and production companies can earn an outsized rate of return, "cash flow can restrict capital from going to assets which otherwise could earn a 12%-15% type rate of return. Given the current alternatives, not a bad option."

"Private equity money flows to what works and energy has been working," David Pursell, managing director of US energy-focused investment bank Tudor, Pickering & Holt (TPH) told Energy Intelligence Finance on the sidelines of a recent BoyarMiller energy breakfast forum in Houston.

Indeed, more than 350 private equity clients receive TPH's daily energy sector research notes and private equity firms have been involved in a number of high-profile, big money energy deals, both as buyers and sellers, since mid-2011 -- particularly in the US upstream and midstream, although also in LNG and oil-field services.

Recent notable transactions include the \$7.15 billion purchase of El Paso's exploration and production assets by a consortium led by Apollo Global Management and Riverstone Holdings; the \$3.5 billion sale of private-equity backed independent Hilcorp to Marathon Oil; and the \$7.2 billion takeover of US upstream group Samson Investment by a Kohlberg, Kravis and Roberts-led consortium.

A recent report by IHS Herold analysts Christopher

Sheehan and Anna Wuchek noted that the acquisition of Samson was the largest upstream corporate takeover led by private equity in the last 15 years and the second-largest global upstream corporate deal in 2011.

Private equity has even invested in LNG, with Blackstone pumping \$2 billion into Cheniere Energy's planned Sabine Pass LNG export terminal in Louisiana (EIF Nov.16'11).

TPH's Pursell says private equity funds are getting bigger, and that many of the more traditional private equity players are beginning to move into the energy sector.

In recent years, private equity firms have focused on Silicon Valley. But Pursell says a number of the more traditional private equity firms are now looking to join seasoned energy-focused peers such as First Reserve, Riverstone and Lime Rock in the oil and gas sector.

The IHS Herold report also noted that private equity has "better access to cash when capital markets are tight, and [faces] fewer restrictions compared with publicly traded E&Ps, which allows for a longer-term investment horizon." These, the report said, are the primary reasons why private equity is taking a bigger role in the upstream acquisition and divestiture markets.

Increasingly aggressive purchases by international buyers in North America also present attractive divestment opportunities for private equity players, the IHS Herold report said (EIF Jan.11'12).

### Selected North American E&P-Focused Private Equity Deals, Last 12 Months

Announced Date	Buyers	Sellers	Assets Purchased	Transaction Value*	Proved Reserves†	Implied Value‡
Feb.'12	<b>Apollo, Riverstone,</b> Access Industries, KNOC	El Paso	El Paso's E&P business	\$7,500	664.5	\$7.86
Nov.'11	KNOC, Samsung C&T	<b>Parallel Petroleum (Apollo)</b>	Parallel from Apollo	772	69.0	11.18
Nov.'11	<b>Crestview, KKR, NGP,</b> Itochu	Samson Investment	privately held Samson	7,200	—	—
Sep.'11	Hess	<b>Marquette Exploration (EnCap)</b>	Marquette from EnCap	750	—	—
Jun.'11	Marathon Oil	<b>Hilcorp, KKR</b>	S.TX Eagle Ford acreage	3,500	—	—
May'11	Crew Energy	<b>Caltex Energy (32 Degrees Capital)</b>	Caltex from 32 Degrees	\$689	18.8	\$34.22

Note: private equity firms in bold. \*In \$ million. †in million boe. ‡ Value of proved reserves, in \$/boe. Source: IHS Herold, EIF.

CONT.

## Good Returns Tempt Private Equity Into US Oil and Gas Sector

But, speaking at the same breakfast forum, Lime Rock Managing Director Will Franklin said private equity has concerns over regulatory and political uncertainty in the US, whether crude is overpriced, and whether there is a natural gas glut in North America.

Pursell also pegged US political and regulatory uncertainty as the biggest energy-related concerns for private equity. Washington, Pursell said, seems unable to form a "coherent energy policy" and pointed to the Keystone XL pipeline debate as an example.

The US policy debate over hydraulic fracturing for the extraction of shale gas and liquids is also a matter of concern, given that it is an essential part of the process, said Halliburton

Senior Technology Manager Stephen Ingram, who also spoke at the Houston breakfast meet.

But Tom Hargrove, managing director of Houston-based investment bank GulfStar Group, told the BoyarMiller forum that there is a substantial amount of uninvested private equity capital and that these funds have investment timelines that they are obliged to stick to.

"You're going to see a large amount of money being spent," he said.

Wells Fargo's analysts agree, predicting that "this trend likely continues. ■

Rachael Seeley