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Upstream Mergers and Acquisition Deal Valuation – A Global and Africa Outlook with Perspectives for Nigeria

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THE OBJECTIVES

- Provide a historical narrative of the upstream M&A activity
- Assess the character of the next cycle of M&A activities within the Nigerian upstream space
- Estimate the impact of the value drivers on M&A deal valuation

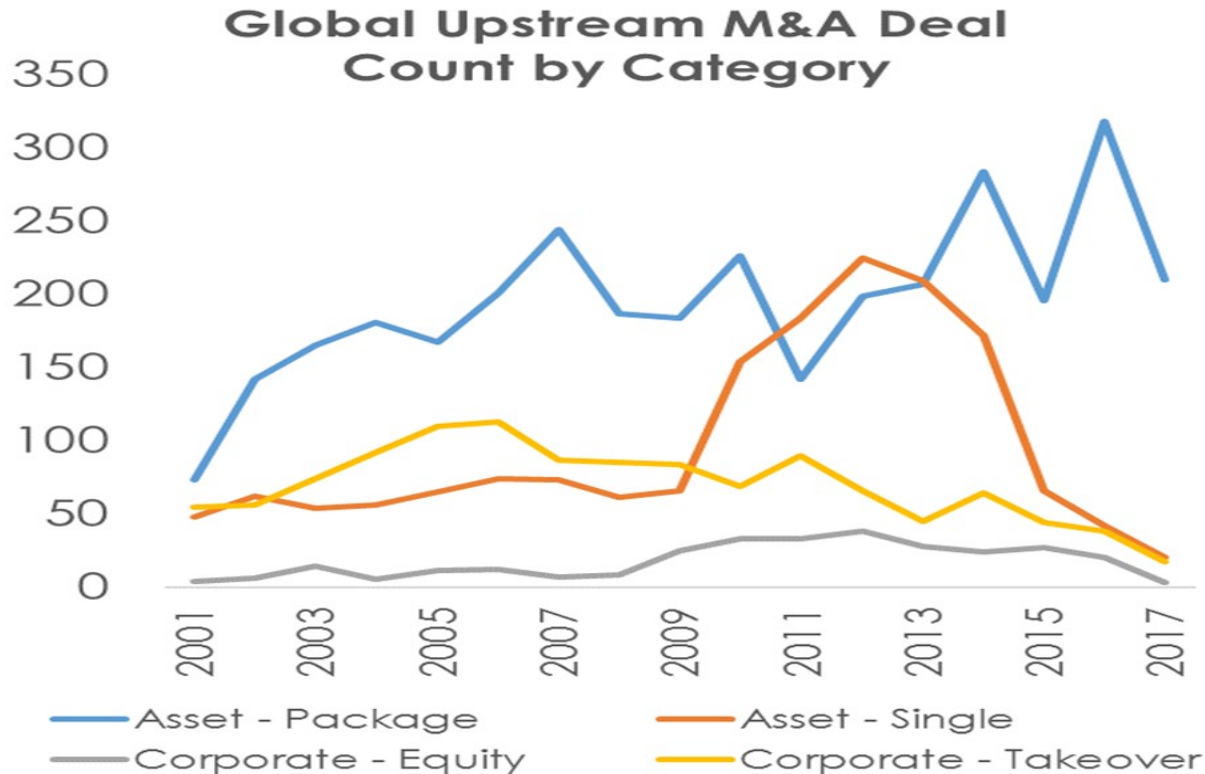
The activity associated with global oil and gas upstream M&A can be characterized by...

- deal count,
- deal value,
- quantum of proved reserves up for M&A
- deal category, and terrain location of deal asset.

Paying attention to the signals emitted from M&A deal activity, we can ...

- Track the general trend of the industry,
- understand the evolving industry structure, and
- decipher corporate strategic intent

Asset – Package type acquisitions have increased While Single – Asset acquisitions and Corporate Take overs have cooled...

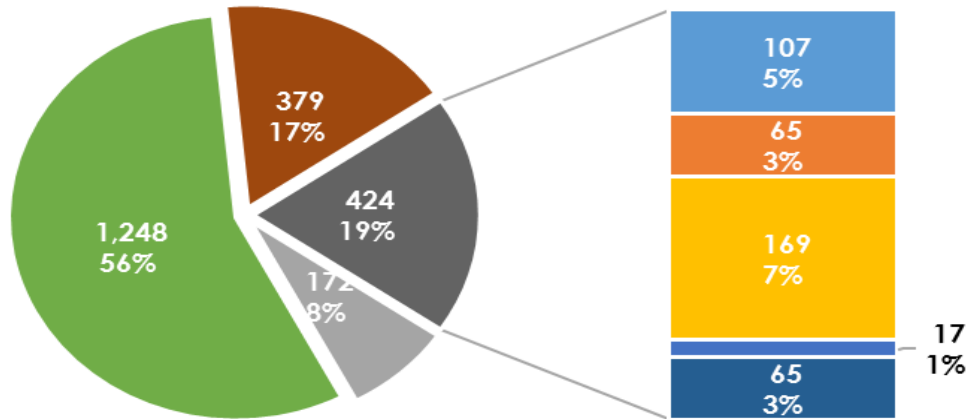


Four deal categories:

- (a) Single Asset Sales,
- (b) Package Asset Sales,
- (c) Equity Stake Acquisition, and
- (d) Take over of a Corporate entity

Between 2001 and 2017, M&A transaction value totals at least \$2.22Trillion (RT2016)... \$107Billion of which is Africa

TOTAL DEAL VALUE (\$Billion,RT2016)



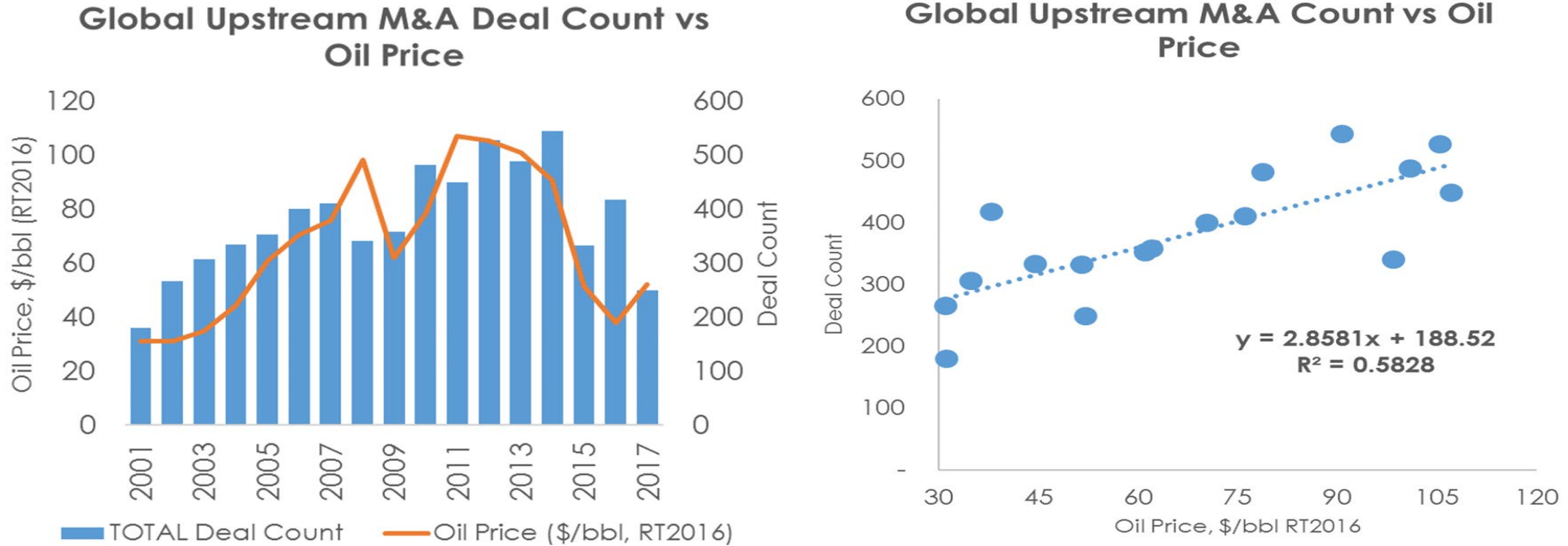
■ Africa
 ■ Europe
 ■ Middle East
 ■ Oceania

■ Asia
 ■ Latin America and the Caribbean
 ■ North America
 ■ Russia and the Caspian

Segregating by Terrain

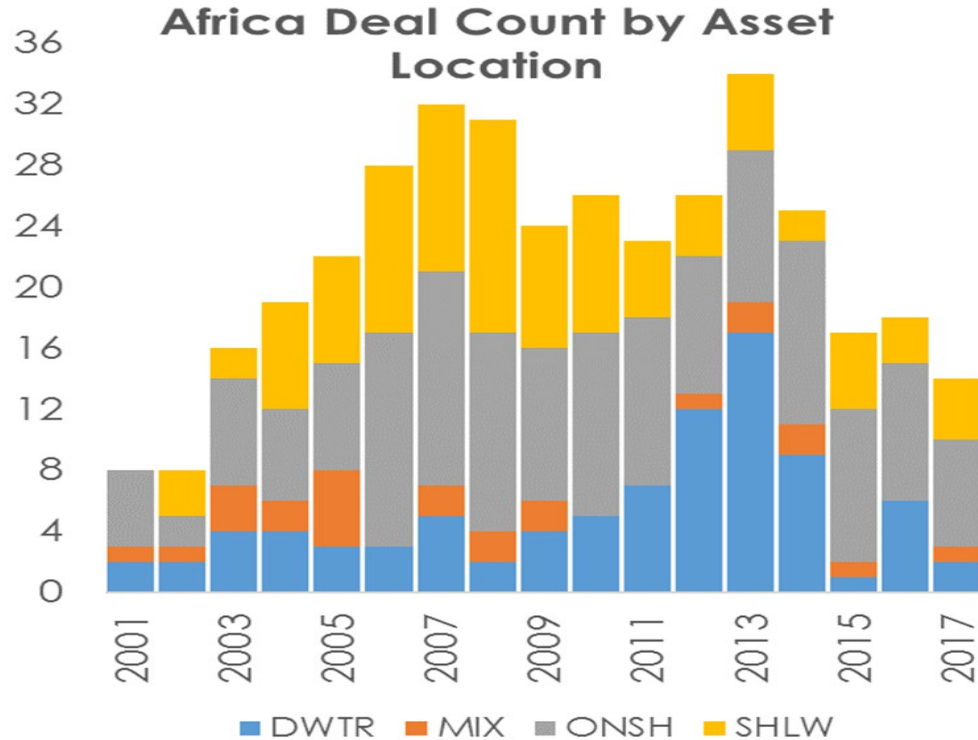
- ONSHORE assets – **\$1.53Trillion**
- DEEPWATER acquisitions have totaled **\$230Billion**
- SHALLOW water asset acquisitions total **\$208Billion**
- MIXED terrain assets have tallied **\$257Billion**

Deal Count Evolves with Oil Price ...nearly 60% variability in deal count is accounted for by oil price

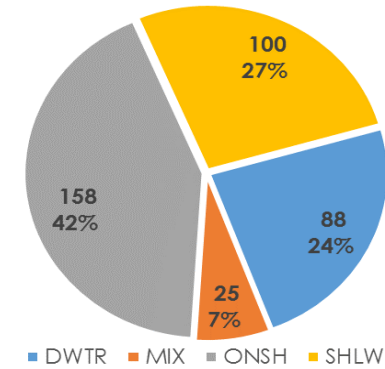


...While 111 Billion BOE proved reserves of oil and gas is the subject of transaction deal value of \$1,180 Billion (RT2016)

Between 2001 and 2017, a total of 371 M&A deals reported on the Africa continent...



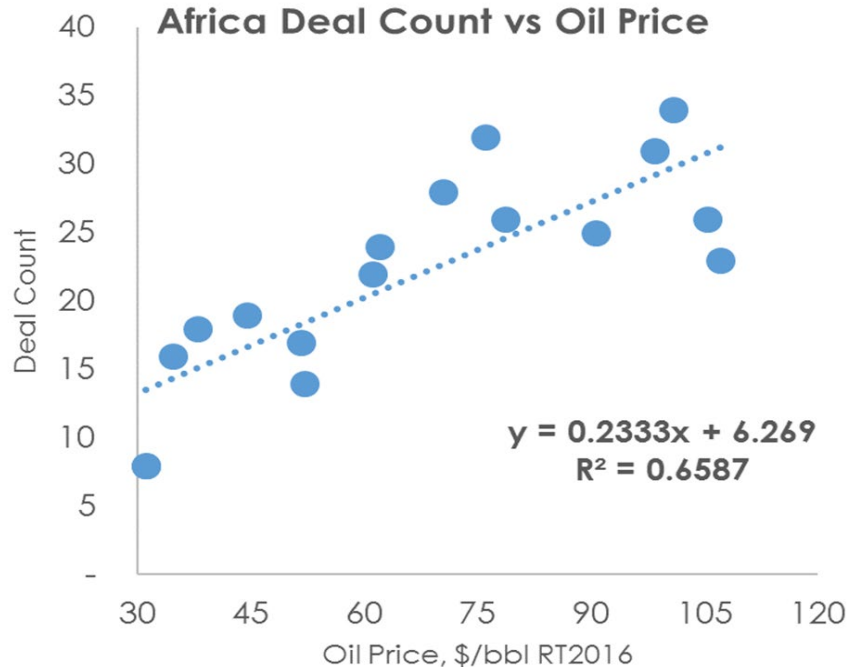
Distribution of Deal Count by Asset Location



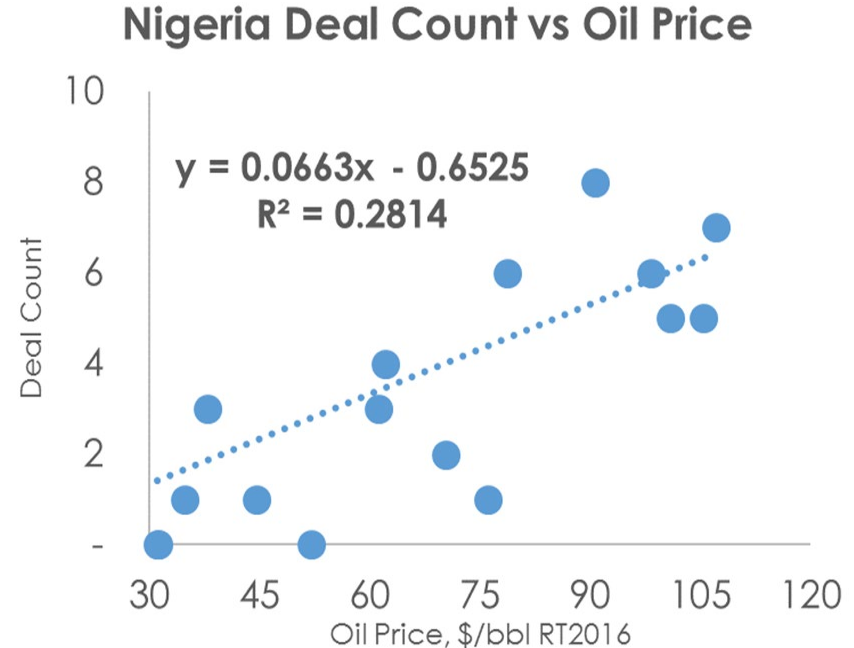
...51% of which have been OFFSHORE

and 42% ONSHORE

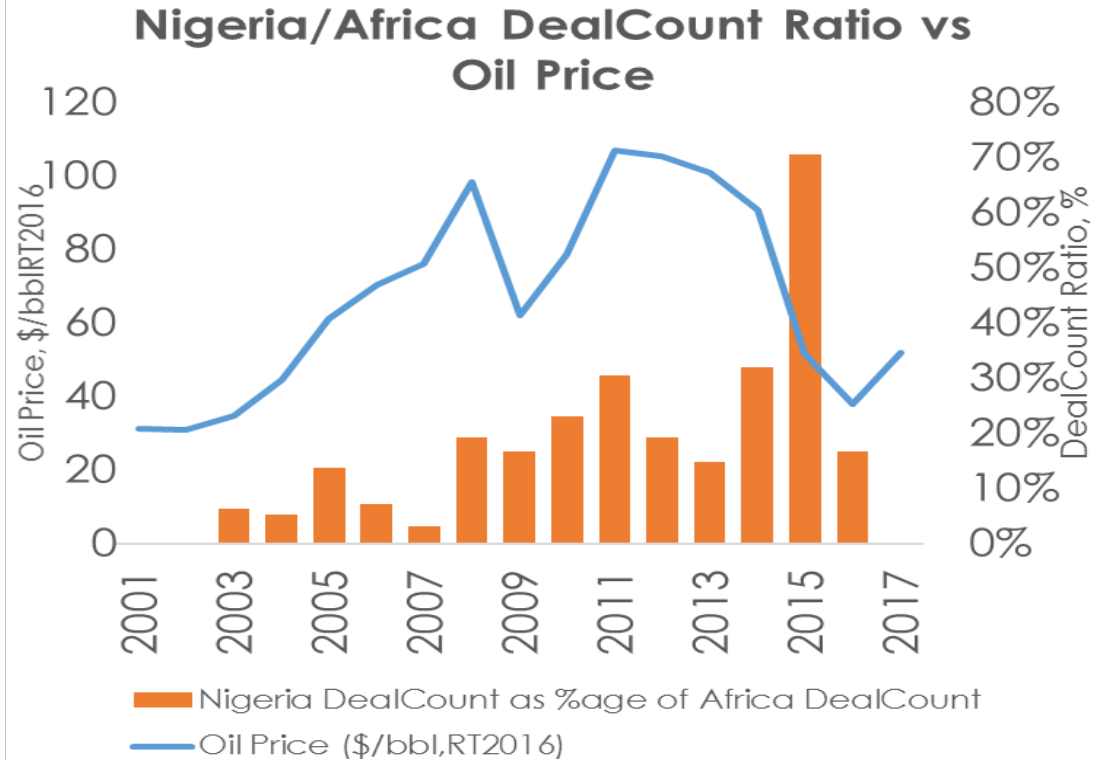
...In Africa \$10/bbl oil price increase can be expected to lead to the consummation of 2 additional deals



...for Nigeria, ~30% variability in expected deal count can be accounted for by oil price



...Nigeria Deal Activity Lags Oil Price Development



...A different model may help explain or account for the lag

M&A Africa Deal Value Model...proved RESERVES play a bigger role than OIL PRICE does in determining Deal Value

	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	
const	-0.892217	1.70694	-0.5227	0.6079	
Ln(RES)	1.07427	0.130838	8.211	<0.0001	***
Ln(OILPRICE)	0.853551	0.373805	2.283	0.0355	**

Mean dependent var	5.824410	S.D. dependent var	1.543857
Sum squared resid	9.114122	S.E. of regression	0.732205
R-squared	0.798745	Adjusted R-squared	0.775068
F(7, 4)	33.73494	P-value(F)	1.21e-06
Log-likelihood	-20.51970	Akaike criterion	47.03940
Schwarz criterion	50.02659	Hannan-Quinn	47.62253

REServe size and OIL PRICE both have a positive impact on Deal value

Key Conclusions ...

- Study has upheld the that deal counts (activity) are driven by oil prices given that ~60% of deal count can be explained by oil prices over the last seventeen years.
- Asset – Package type acquisitions have heated up while Single – Asset acquisitions and Corporate Take overs have cooled off.
- ONSHORE acquisitions consist the bulk of target acquisitions from both the reserves perspective (91Billion BOE of the 111Billion BOE) and value perspective (\$1.53Trillion of \$2.22Trillion).
- However, DEEPWATER acquisitions have averaged \$19.50/BOE while ONSHORE acquisitions have averaged \$9.24/BOE for over the period.
- ~80% of deal value on the Africa M&A space is explained by proved Reserve size and Oil Price where Reserve size carries more impact than Oil price does in determining deal value.
- We expect that M&A deal activity will pick up in Nigeria in view of the oil price increases but will lag the oil price increases as history has shown and as anticipated from the institutional reforms under way.
- Historically, in the Nigeria deal space, oil price has been responsible for explaining ~30% of the deal activity, thus exposing deal activity to other non – Oil price factors.

Acknowledgements / Thank You / Questions

We would like to thank the Management of NNPC for the Opportunity to present this paper

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Two-Column Format

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