# More M&A on the cards in Asia

New players are expected to join the race for M&A in Asia this year as low prices drag down company valuations. Asia Pacific Contributor **Damon Evans** reports from Singapore.

AFTER a false dawn in 2015, this year will mark the return of mergers and acquisitions to Asia Pacific. Conventional oil and LNG assets in the region look most likely to be scooped up – with InterOil, Oil Search and Santos the three most likely targets.

A new array of suitors, including Chinese companies and private equity firms, are expected to join the Asian NOCs and cashed-up producers, such as Australia's Woodside Petroleum, as potential buyers.

Companies with assets in the low-cost emerging gas province of Papua New Guinea are expected to attract plenty of attention. Oil Search and Santos both have stakes in ExxonMobil's PNG LNG plant, which has expansion potential, while InterOil and Oil Search are partners in the proposed Total-led Elk-Antelope export scheme. Other smaller deals in PNG are also possible as international players, such as Spain's Repsol, start to consolidate holdings. Sell-downs by smaller Australian players, such as Horizon Oil, also look likely.

"Once we get through the Iranian crude volumes coming back to market, coupled with more clarity on supply and demand, then deals will pick-up as we hit the bottom of the cycle. I expect private equity will target Santos, while Oil Search and InterOil are both highly possible through conventional buyers, probably Western IOCs," said Neil Beveridge, oil and gas specialist at Bernstein.

Meanwhile, NOCs in China, Southeast Asia and India are tipped to restart M&A activity, as their appetite for overseas expansion has not changed. They still need to secure energy supplies to fuel economic growth and diversify their United States treasury holdings into hard assets, said Michael Wang, a senior analyst at IHS. As well as scoping deals in Southeast Asia, Russia and Brazil will be a priority, according to Beveridge.

Thai company PTTEP has already been linked to a potential $1 billion-plus deal to acquire BG Group's gas-producing Bongkot project in Thailand, while India's Oil and Natural Gas Corp. (ONGC) has outlined an aggressive overseas investment plan.

Nevertheless, the buyer universe is shifting. Chinese gas distribution companies, such as ENN Energy, are aiming to lock in supplies of LNG to reduce their dependence on national champions China National Petroleum Corp. (CNPC), Sinopec and China National Offshore Oil Corp. (CNOOC). They are eager to snap up small stakes without development risk, which offer gas supplies or act as a hedge against supply from sources closer to home.

Chinese conglomerates and entrepreneurs, which appear to have access to large sums of money from state financiers, are also scouting out opportunities to diversify into energy.

Smaller names, such as Singapore's Kris Energy, will continue to hunt for small one-off assets, particularly in Malaysia and Thailand. Indonesia has potential too, but faces rising investment uncertainty.

Oil Search's Gobe production facility in Papua New Guinea. Oil Search is a likely target for M&A activity. (Oil Search)

## Earmarked equity

Some $40-100 billion of private equity was earmarked globally for oil and gas investments last year. Much of the money was raised to take advantage of the low oil price, but 2015 yielded fewer opportunities than expected. However, this year should be better and private equity is still well-funded to take advantage, said Luke Parker, a corporate specialist at Wood Mackenzie.

Asian NOCs reined in overseas acquisition spending in 2015 for a second consecutive year. Their global market share of upstream deals fell to its lowest level since 2007, analysis from consultancy IHS showed. Chinese NOCs spent less than $5 billion on acquisitions in 2014 and 2015.

Yet despite low oil prices squeezing cash flows the balance sheets of many Asian NOC are in relatively good shape compared with the IOCs – particularly Malaysia's Petronas, PTTEP, CNPC and CNOOC – all of which have relatively low gearing ratios.

However, Beveridge does not expect the NOCs to lead the charge in Asia Pacific this year. "I think they will participate, but with the anti-corruption investigations paralysing Chinese NOCs, as well as balance sheets being stretched, there is a lot of uncertainty and the management has a lot on their plate. They won't be first movers," he told *Interfax*.

As oil prices stay low for longer there will be big changes in equity valuations, which will eventually kickstart the M&A cycle, with Western companies taking the lead, added Beveridge. "In terms of private equity there is a lot of money on the sidelines waiting for valuations to come down to an acceptable risk-reward level."

Last year, equity valuations proved too rich to entice buyers. Data from IHS recorded 90 deals in Asia Pacific with a total value of $6.9 billion, which did not include two proposed major corporate takeovers.

Woodside launched a failed A$11.6 billion ($8 billion) bid for Papua New Guinea-focused Oil Search, while Middle East private equity group Scepter, whose A$7.14 billion offer for Santos was also rejected, retreated without upping its bid. ■

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