



DUFF & PHELPS

Protect, Restore and Maximize Value

INDUSTRY INSIGHTS

# Oil and Gas Sector Update - Americas

1st Quarter 2019



# FY2018 in Review

Oil and Gas Sector





# Oil and Gas Sector Update FY2018 in Review



WTI decreased by 40% over Q4-2018 and wiped out the entire gains of the year, ending with a loss of 24%.

This negatively impacted the entire Oil and Gas sector (down 18.3%) over the year:

## Worst performers

Diversified OFS (down 54.4%)

Drilling (down 41.9%)

Offshore Drilling (down 36.6%)

## Best performers

Equipment-focused OFS (up 20.1%)

Diversified Pipelines (up 3.2%)

The average LTM revenue and LTM EBITDA multiples in 2018, for the Oil and Gas sector overall were 1.6x and 7.3x, respectively.

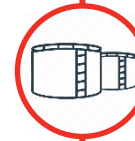
## THE OIL AND GAS SECTORS WITH THE HIGHEST VALUATION MULTIPLES



Offshore Transportation  
16.1x EBITDA, 3.0x Revenues



Diversified Pipelines  
13.8x EBITDA, 2.7x Revenues



Diversified Midstream  
11.6x EBITDA, 1.5x Revenues



Natural Gas Pipelines  
11.3x EBITDA, 3.2x Revenues



Offshore Drilling  
10.4x EBITDA, 2.8x Revenues

# Oil and Gas Sector Update

## Valuation Multiples

Market Sector	# of Co's	Avg. Mkt. Cap as of 12-31-18	Average % Change			LTM Multiples		
			1 mo	3 mo	12 mo	Rev	EBITDA	1P
<b>Upstream</b>								
Integrated Majors	2	248,288	(11.4%)	(17.1%)	(15.6%)	1.3x	7.7x	15.5x
National Oil Companies	3	40,132	(12.5%)	(18.6%)	(1.7%)	1.9x	4.9x	57.0x
Large Independents	20	22,066	(11.5%)	(30.2%)	(21.6%)	2.3x	5.8x	11.9x
Independents	98	1,203	(16.7%)	(41.0%)	(19.0%)	2.4x	4.2x	6.6x
<b>Total / Average</b>	<b>123</b>	<b>311,689</b>	<b>(13.0%)</b>	<b>(26.7%)</b>	<b>(14.5%)</b>	<b>2.0x</b>	<b>5.7x</b>	<b>22.8x</b>
<b>Midstream</b>								
Natural Gas Pipelines	19	10,286	(10.1%)	(20.4%)	(21.9%)	3.2x	11.3x	n.d.
Diversified Pipelines	19	11,868	(7.6%)	(10.6%)	3.2%	2.7x	13.8x	n.d.
Refined Product Pipelines	3	1,521	(5.7%)	(22.7%)	(20.4%)	1.3x	9.5x	n.d.
Offshore Transportation	5	505	(20.0%)	(13.6%)	(6.0%)	3.0x	16.1x	n.d.
Diversified Midstream	12	3,818	(7.5%)	(23.0%)	(21.6%)	1.5x	11.6x	n.d.
<b>Total / Average</b>	<b>58</b>	<b>27,997</b>	<b>(10.2%)</b>	<b>(18.1%)</b>	<b>(13.3%)</b>	<b>2.4x</b>	<b>12.5x</b>	<b>n.d.</b>
<b>Refining</b>	<b>8</b>	<b>16,480</b>	<b>(12.5%)</b>	<b>(25.9%)</b>	<b>(5.5%)</b>	<b>0.5x</b>	<b>6.9x</b>	<b>n.d.</b>
<b>Marketing</b>								
Retail Marketing	4	4,114	(0.9%)	10.8%	(18.2%)	0.7x	9.1x	n.d.
Wholesale Marketing	5	908	(8.9%)	(23.2%)	(29.9%)	0.4x	8.7x	n.d.
<b>Total / Average</b>	<b>9</b>	<b>5,022</b>	<b>(4.9%)</b>	<b>(6.2%)</b>	<b>(24.0%)</b>	<b>0.6x</b>	<b>8.9x</b>	<b>n.d.</b>
<b>OFS</b>								
Diversified OFS	6	14,146	(18.8%)	(45.3%)	(54.4%)	1.6x	9.5x	n.d.
Equipment-focused OFS	13	979	(18.8%)	(34.7%)	20.1%	1.1x	6.2x	n.d.
Service-focused OFS	17	668	(22.4%)	(40.0%)	(32.5%)	0.8x	4.4x	n.d.
Drilling	6	2,912	(19.0%)	(41.2%)	(41.9%)	1.4x	8.6x	n.d.
Offshore Drilling	6	907	(26.0%)	(52.7%)	(36.6%)	2.8x	10.4x	n.d.
<b>Total / Average</b>	<b>48</b>	<b>19,612</b>	<b>(21.0%)</b>	<b>(42.7%)</b>	<b>(29.1%)</b>	<b>1.6x</b>	<b>7.8x</b>	<b>n.d.</b>
<b>Total / Average</b>	<b>246</b>	<b>380,800</b>	<b>(14.7%)</b>	<b>(32.5%)</b>	<b>(18.3%)</b>	<b>1.6x</b>	<b>7.3x</b>	<b>n.d.</b>

# Oil and Gas Sector Update

## Market Data

Market Index	Value at	52 week	52 week	% Change		
	12-31-18	high	low	1 mo	3 mo	12 mo
S&P 500	2,507	2,931	2,351	(9.2%)	(14.2%)	(8.6%)
MSCI Emerging Markets	966	1,273	935	(2.9%)	(6.5%)	(19.6%)
BOVESPA (BR)	87,887	89,820	69,815	(1.8%)	7.7%	11.1%
IPC (MX)	41,640	51,065	39,427	(0.2%)	(15.7%)	(16.5%)
S&P Composite 1500 Oil & Gas Exploration & Production (Sub Ind)	361	552	334	(15.4%)	(33.1%)	(24.9%)
S&P Composite 1500 Oil & Gas Storage & Transportation (Sub Ind)	147	190	138	(11.5%)	(18.2%)	(19.8%)
S&P Composite 1500 Oil & Gas Refining & Marketing (Sub Ind)	1,447	2,124	1,327	(9.1%)	(29.4%)	(14.1%)
S&P Composite 1500 Oil & Gas Equipment & Services (Sub Ind)	319	649	306	(18.4%)	(40.5%)	(47.4%)

Peer Group Capitalization Profile	# of Co's	Avg. Mkt. Cap as of 12-31-18	% Total # of Co's	% Avg. Mkt. Cap	Average Stock Performance		
					1 mo	3 mo	12 mo
> \$250 billion	1	288,703	0.4%	47.8%	(14.2%)	(21.1%)	(18.5%)
\$100 billion - \$250 billion	1	207,873	0.4%	34.4%	(8.5%)	(13.0%)	(12.6%)
\$50 billion - \$100 billion	5	64,096	2.0%	10.6%	(6.9%)	(13.0%)	1.2%
\$25 billion - \$50 billion	12	36,982	4.9%	6.1%	(11.7%)	(26.2%)	(17.1%)
\$1 billion - \$25 billion	109	5,603	44.3%	0.9%	(12.9%)	(30.2%)	(25.6%)
\$500 million - \$1 billion	67	728	27.2%	0.1%	(18.0%)	(41.2%)	(30.7%)
< \$500 million	51	281	20.7%	0.0%	(18.9%)	(44.4%)	(51.4%)
<b>Total / Average</b>	<b>246</b>	<b>8,009</b>	<b>100.0%</b>	<b>100.0%</b>	<b>(13.0%)</b>	<b>(27.0%)</b>	<b>(22.1%)</b>

Commodity Prices	WTI Crude Oil (\$ / bbl)			Henry Hub Nat. Gas (\$ / MMBtu)		
	2018	2019F	% Change	2018	2019F	% Change
Toronto-Dominion Bank	45.7	68.0	48.7%	2.85	3.08	8.0%
The Bank of Nova Scotia	45.7	59.0	28.9%	2.85	3.00	5.2%
Santander	45.7	56.5	23.6%	2.85	3.10	8.7%
Barclays	45.7	66.0	44.4%	2.85	2.78	(2.5%)
Natixis	45.7	69.0	50.9%	2.85	3.20	12.2%
Raymond James Financial	45.7	75.0	64.0%	2.85	2.80	(1.8%)
Commerzbank	45.7	67.0	46.5%	2.85	3.30	15.7%
Oxford Economics	45.7	60.1	31.4%	2.85	3.08	8.2%
Capital Economics	45.7	51.5	12.6%	2.85	3.75	31.5%
Coker & Palmer	45.7	64.0	40.0%	2.85	2.97	4.2%
<b>Average</b>	<b>45.7</b>	<b>63.6</b>	<b>39.1%</b>	<b>2.85</b>	<b>3.11</b>	<b>9.0%</b>
<b>Median</b>	<b>45.7</b>	<b>65.0</b>	<b>42.2%</b>	<b>2.85</b>	<b>3.08</b>	<b>8.1%</b>

### Upstream Budget Price

55.0 – 60.0

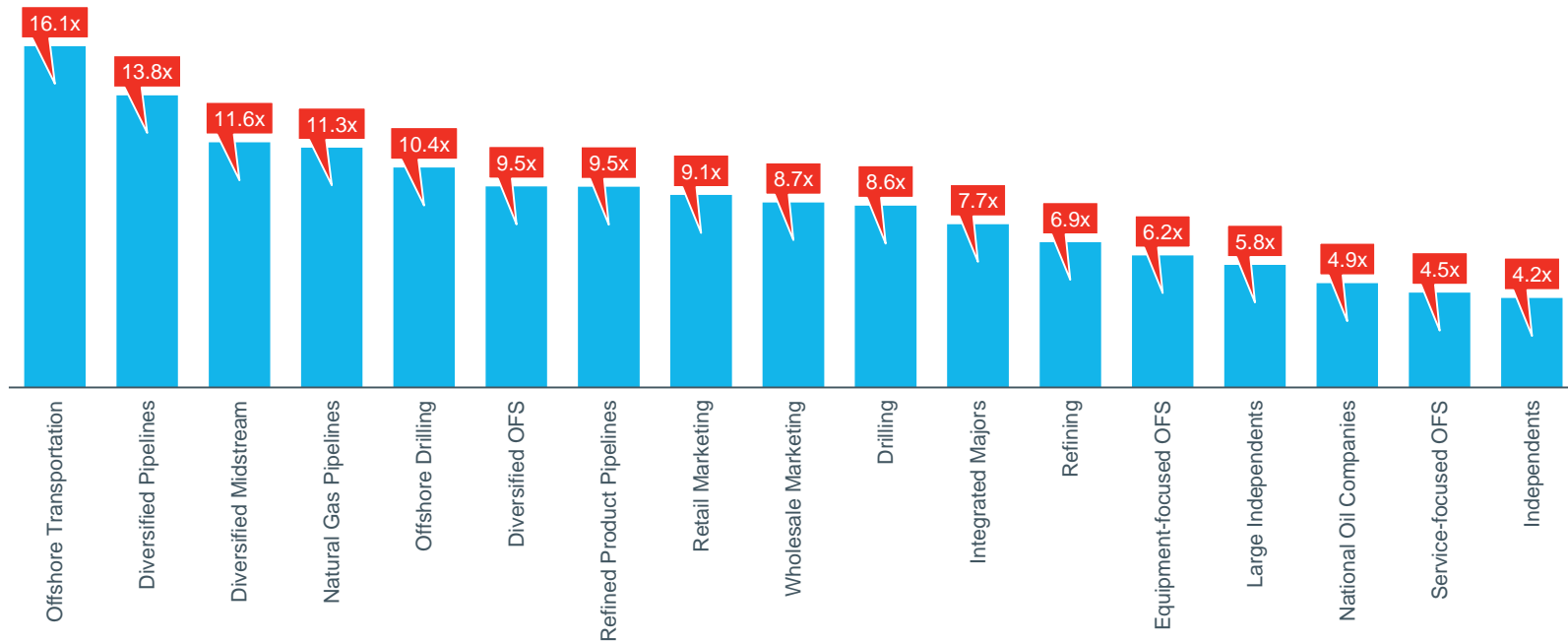
2.50 – 2.99

Source: S&P Capital IQ, Bloomberg, Barclays Upstream Spending Survey 2019, Duff & Phelps Analysis. FY2018

# Oil and Gas Sector Update

## Valuation Multiples

EV / LTM EBITDA by Subsector





# 1Q'19 Update

Oil and Gas Sector

# Oil and Gas Sector Update Highlights



WTI rallied by 31.8% over the first Quarter of 2019 returning to the same price level as January 2018.

The Oil and Gas sector (up 19.1%) saw overall recovery over the past quarter. Except for Refined Products Pipelines, every subsector performed positively:

## Worst performers

Refined Products Pipelines (down 14.6%)  
Offshore Transportation (up 7.4%)

## Best performers

Diversified Midstream (up 51.8%)  
Service-focused OFS (up 32.0%)

Over the past quarter 12 M&A deals were closed, the average EV/Revenues and EV/EBITDA multiples were 5.5x and 11.2x, respectively.

## THE OIL AND GAS SECTORS WITH THE HIGHEST TRANSACTION MULTIPLES



Drilling

41.8x EBITDA, 2.1x Revenues



Diversified Pipelines

38.6x EBITDA, 25.9x Revenues



Large Independents

26.0x EBITDA, 10.9x Revenues



Diversified OFS

18.8x EBITDA, 3.1x Revenues



Independents

16.7x EBITDA, 5.1x Revenues



# Oil and Gas Sector Update

## Market Momentum Q1



Average % - 3 Month Change by Subsector

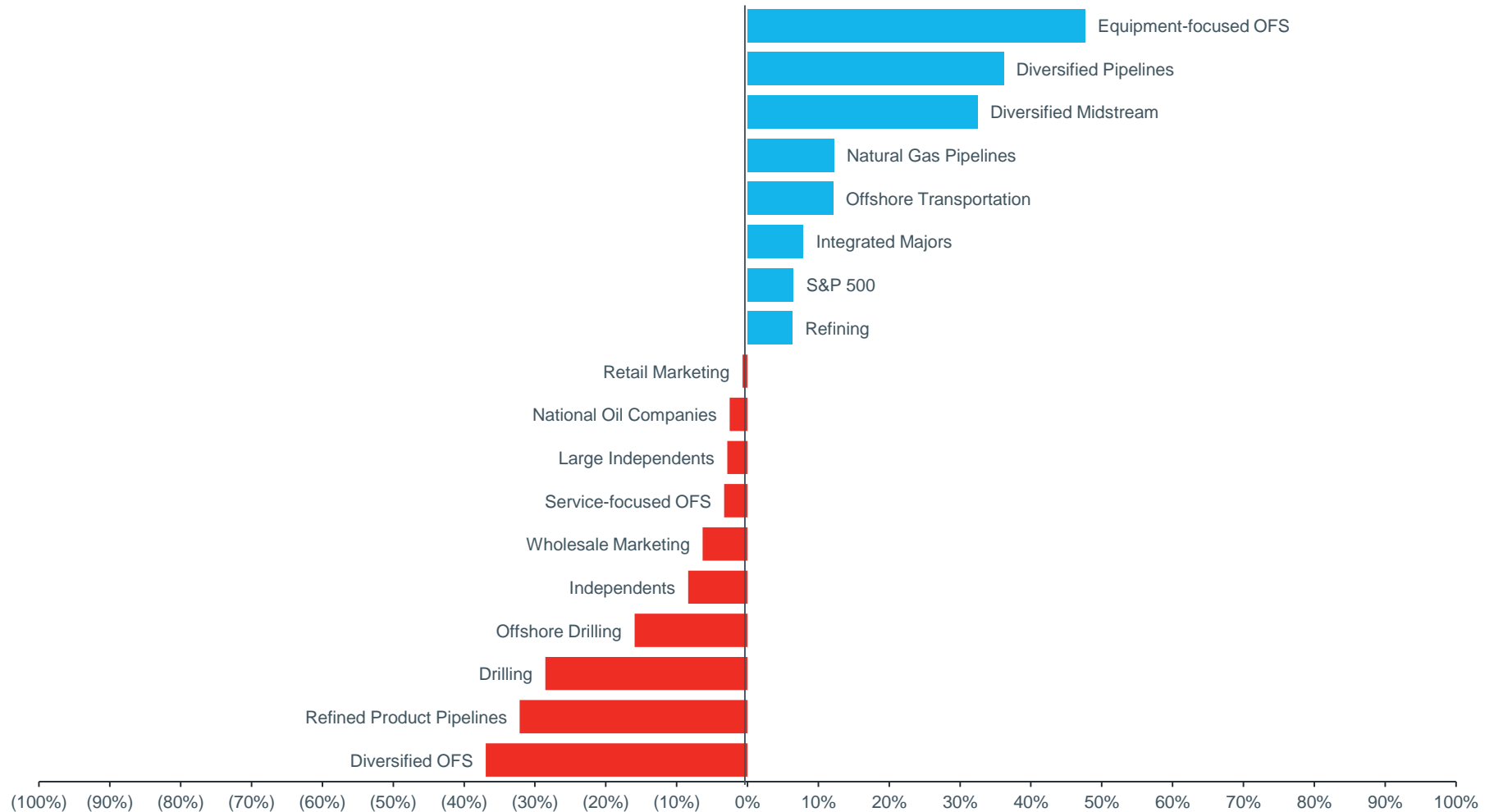


# Oil and Gas Sector Update

## Market Momentum Q1



Average % - 12 Month Change by Subsector



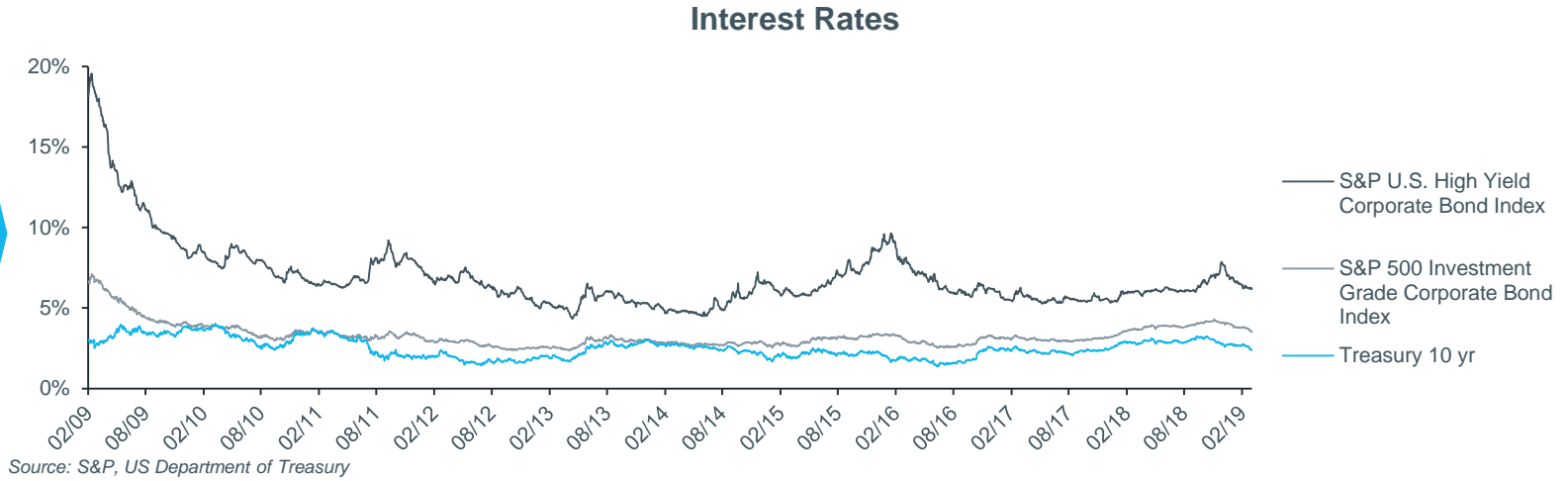
# Oil and Gas Sector Update

## M&A Market Environment

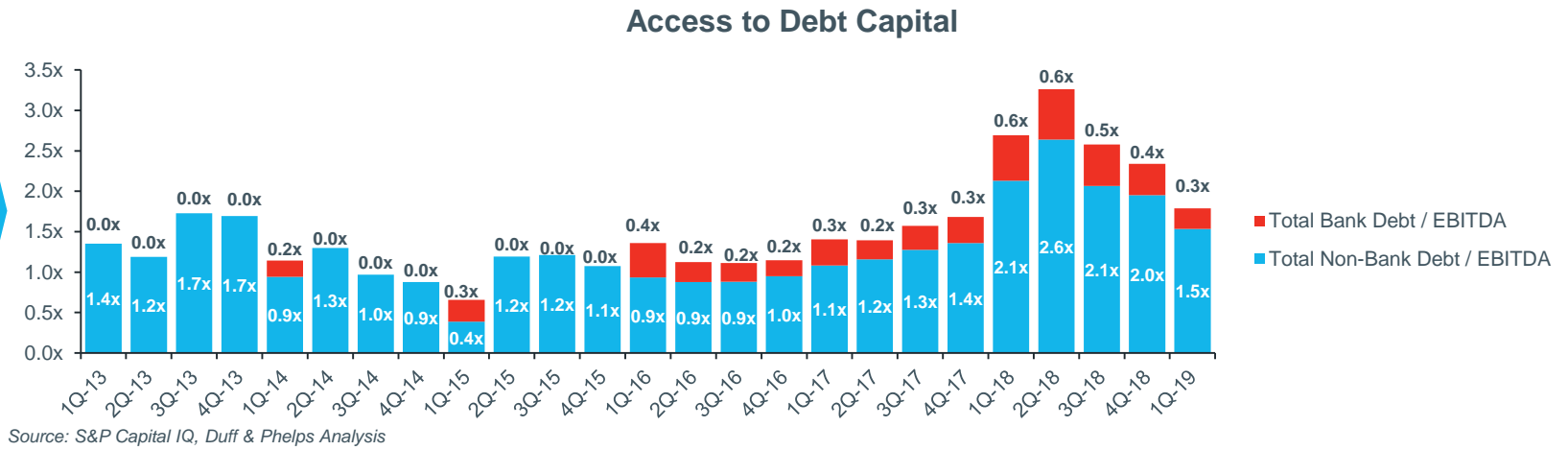


The Federal Reserve's recent announcement that rates are not expected to raise during 2019 alleviated the pressure on interest rates across the spectrum. High Yield and Investment Grade Corporate Bonds Indexes decreased by 19% and 12%, respectively, over the past quarter. Corporate leverage ratios decreased for four consecutive quarters. However, due to the Fed's announcement being late in March, these ratios are expected to rise in the near future.

### Cost of Debt Capital



### Access to Debt Capital





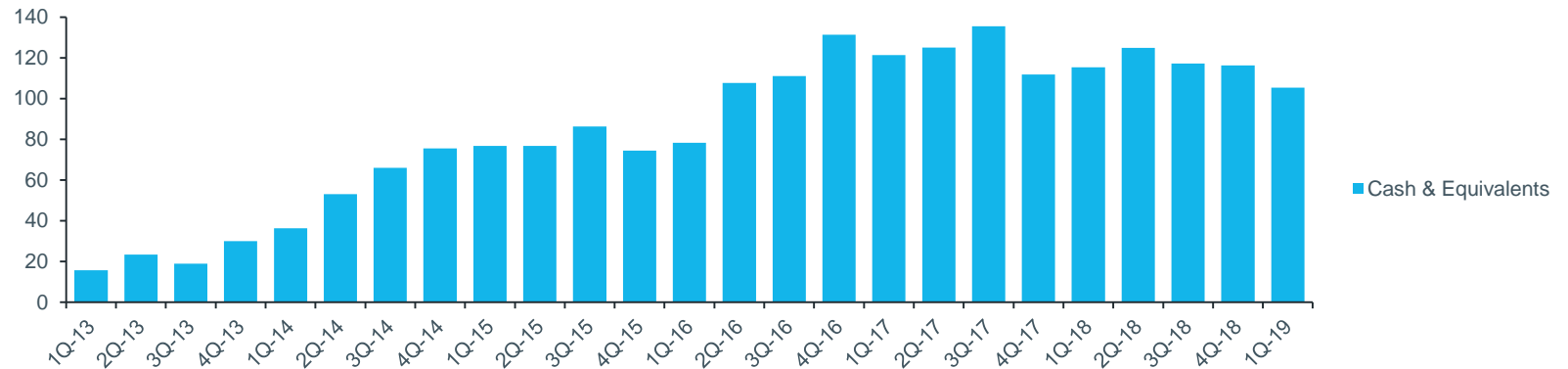
# Oil and Gas Sector Update

## M&A Market Environment



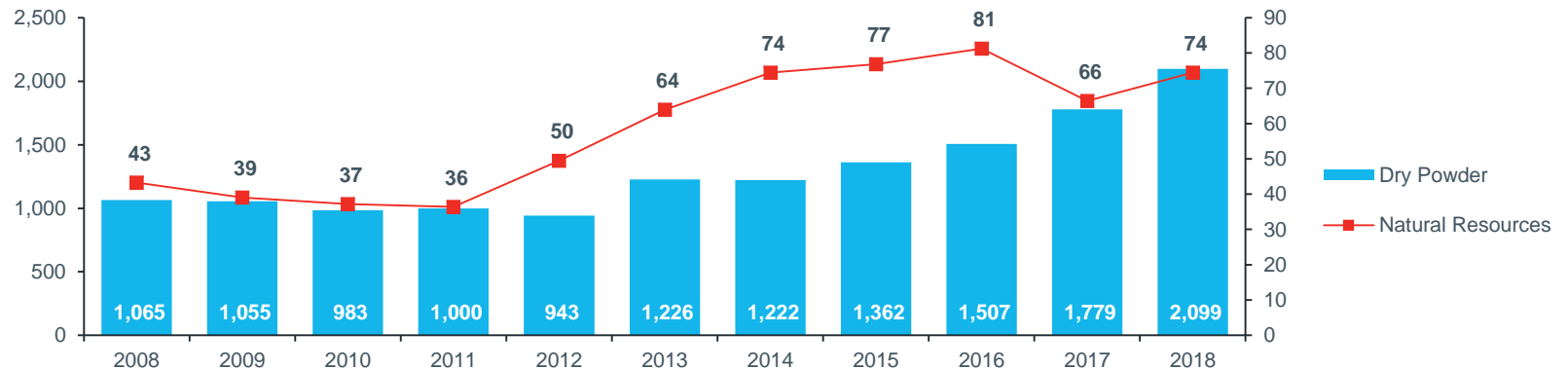
Corporate cash levels decreased 10.2% over the past quarter and 9.2% Y-o-Y. Nonetheless, cash reserves have consistently remained above 100Bn USD for almost 3 years. Corporate war-chests should be expected to be put to work while crude prices recover and remain around 50USD/bbl. Global Private Capital dry powder levels continue to mount and reached over 2Tn USD in 2018. Natural resources-focused dry powder reached 74Bn USD in 2018 and represents 4% of the total global resources.

### Cash and Equivalents (Bn USD)



Source: S&P Capital IQ, Duff & Phelps Analysis

### Private Capital Dry Powder (Bn USD)



Source: Prequin, Duff & Phelps Analysis

Strategic Buyer Purchasing Power

Private Capital Environment

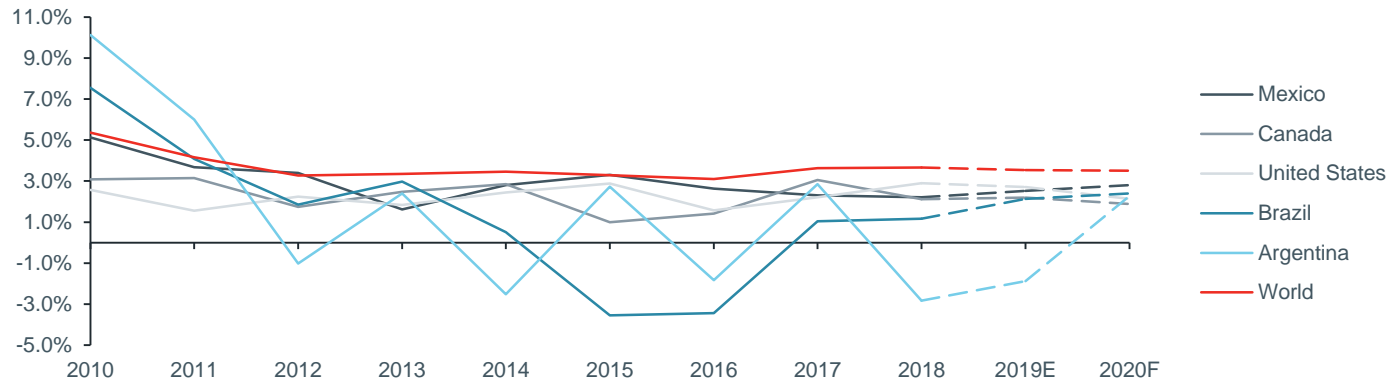
# Oil and Gas Sector Update

## M&A Market Environment



For the past 10 years the average GDP growth of the 5 largest American economies has remained consistently below the world average. This trend is expected to continue at least until 2020. Except for Argentina, these economies are expected to grow around 2.0% for 2019 and 2020 which should boost the industrial development overall and, in consequence, the oil and gas sector.

GDP Growth



Source: Organization for Economic Co-operation and Development (OECD)

GDP Growth

# Oil and Gas Sector Update

## Transaction Overview

Market Sector (Target Companies)	# of Deals	Median Transaction Multiples			Avg. Transaction Multiples		
		Rev	EBITDA	1P	Rev	EBITDA	1P
<b>Upstream</b>							
Integrated Majors	0	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
National Oil Companies	2	1.0x	6.0x	41.6x	1.0x	6.0x	85.0x
Large Independents	2	10.9x	26.0x	130.8x	10.9x	26.0x	20.4x
Independents	36	4.1x	9.0x	9.0x	5.1x	16.7x	16.9x
<b>Total / Average</b>	<b>40</b>	<b>5.4x</b>	<b>13.7x</b>	<b>60.5x</b>	<b>5.7x</b>	<b>16.2x</b>	<b>40.8x</b>
<b>Midstream</b>							
Natural Gas Pipelines	17	5.9x	11.1x	n.d.	6.1x	15.8x	n.d.
Diversified Pipelines	8	6.9x	12.9x	n.d.	25.9x	38.6x	n.d.
Refined Product Pipelines	0	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
Offshore Transportation	2	3.8x	15.2x	n.d.	3.8x	15.2x	n.d.
Diversified Midstream	4	4.9x	10.7x	n.d.	5.3x	12.3x	n.d.
<b>Total / Average</b>	<b>31</b>	<b>5.4x</b>	<b>12.5x</b>	<b>n.d.</b>	<b>10.3x</b>	<b>20.5x</b>	<b>n.d.</b>
<b>Refining</b>	<b>2</b>	<b>0.5x</b>	<b>4.1x</b>	<b>n.d.</b>	<b>0.5x</b>	<b>4.1x</b>	<b>n.d.</b>
<b>Marketing</b>							
Retail Marketing	2	0.9x	9.2x	n.d.	0.9x	9.2x	n.d.
Wholesale Marketing	4	0.4x	8.2x	n.d.	0.4x	9.4x	n.d.
<b>Total / Average</b>	<b>6</b>	<b>0.7x</b>	<b>8.7x</b>	<b>n.d.</b>	<b>0.7x</b>	<b>9.3x</b>	<b>n.d.</b>
<b>OFS</b>							
Diversified OFS	1	3.1x	18.8x	n.d.	3.1x	18.8x	n.d.
Equipment-focused OFS	3	1.2x	8.7x	n.d.	2.6x	9.5x	n.d.
Service-focused OFS	0	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
Drilling	6	2.1x	14.9x	n.d.	2.1x	41.8x	n.d.
Offshore Drilling	2	2.7x	5.1x	n.d.	2.7x	5.1x	n.d.
<b>Total / Average</b>	<b>12</b>	<b>2.3x</b>	<b>11.9x</b>	<b>n.d.</b>	<b>2.6x</b>	<b>18.8x</b>	<b>n.d.</b>
<b>Total / Average</b>	<b>91</b>	<b>3.7x</b>	<b>11.1x</b>	<b>n.d.</b>	<b>6.5x</b>	<b>18.6x</b>	<b>n.d.</b>

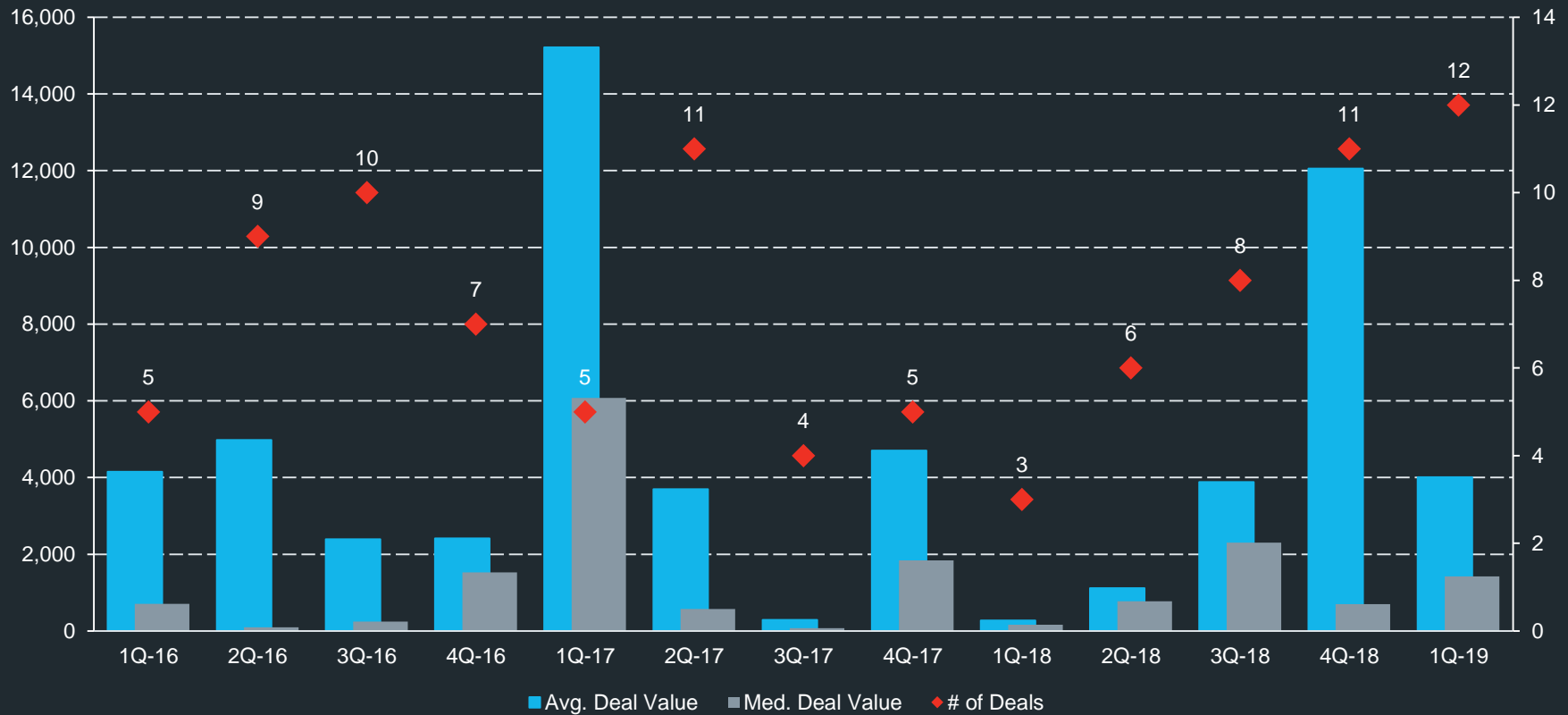


# Oil and Gas Sector Update

## Transaction Overview



### Peer Group Transactions



Source: S&P Capital IQ, Duff & Phelps Analysis. Last 3 years transactions.

For more detailed 1Q2019 trading multiples for individual oil and gas companies or for a more detailed view on potential acquisition targets across the Americas please contact one of our professionals below.

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