

M&A Predictor: Global Energy sector

2018 Annual Report/Sector Report

Includes 2018 Q1 Update
May 2018



KPMG International
Deal Advisory

kpmg.com/predictor-energy

Energy



Henry Berling

*Managing Director, Head of US Energy
Investment Banking
KPMG in the US*

Henry's areas of expertise include energy and natural resources, infrastructure, power and utilities, and renewable energy.



Manuel Santillana

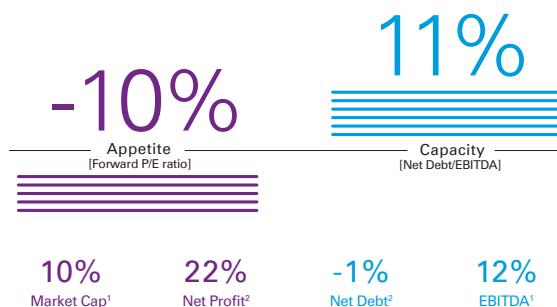
*Global ENR Deal Advisory Lead
Partner, KPMG in Spain*

Manuel is responsible for M&A for the Energy sector, having participated in transactions and valuations for electricity, gas and oil and renewable energy companies.

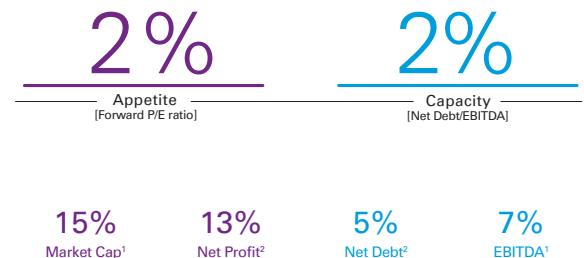
"Although they might never get back to the profitability levels of 2014 and earlier, energy companies will continue to realize that they are making money, paying down debt and getting healthier – and are now in a much better position to pursue transactions."

~ Henry Berling, Head of US Energy Investment Banking

Oil & Gas



Utilities



We anticipate a mixed but promising year for Energy sector M&A transactions in 2018 as the market continues to stabilize and companies increasingly position themselves for greater earnings growth.

According to M&A Predictor data, corporate appetite for M&A deals in the Oil & Gas sector, as measured by forward P/E ratios, is expected to decline by 10 percent in 2018 versus 2017, while appetite for M&A deals in the Utilities sector is expected to rise by 2 percent in 2018. The capacity of corporates to fund M&A growth is expected to rise by 11 percent for the Oil & Gas sector and 2 percent for the Utilities sector.

Source: CapitalIQ and KPMG Analysis
1. As at December 31, 2017 vs as at December 31, 2016 2. December 31, 2017 to December 31, 2018 vs December 31, 2016 to December 31, 2017

"Although they might never get back to the profitability levels of 2014 and earlier, energy companies will continue to realize that they are making money, paying down debt and getting healthier – and are now in a much better position to pursue transactions. The gap between the bid and the ask in the oil and gas markets could fully close in 2018, prompting the beginning of an increase in deal activity," says Henry Berling, Head of US Energy Investment Banking.

We see this playing out in Q1 2018 as deal value rose about 11 percent to US\$184 billion, despite an 18 percent drop in deal volume to 484. The average size of deals in Q1 2018 (US\$380 million) is now the highest in 10 years by a significant margin.

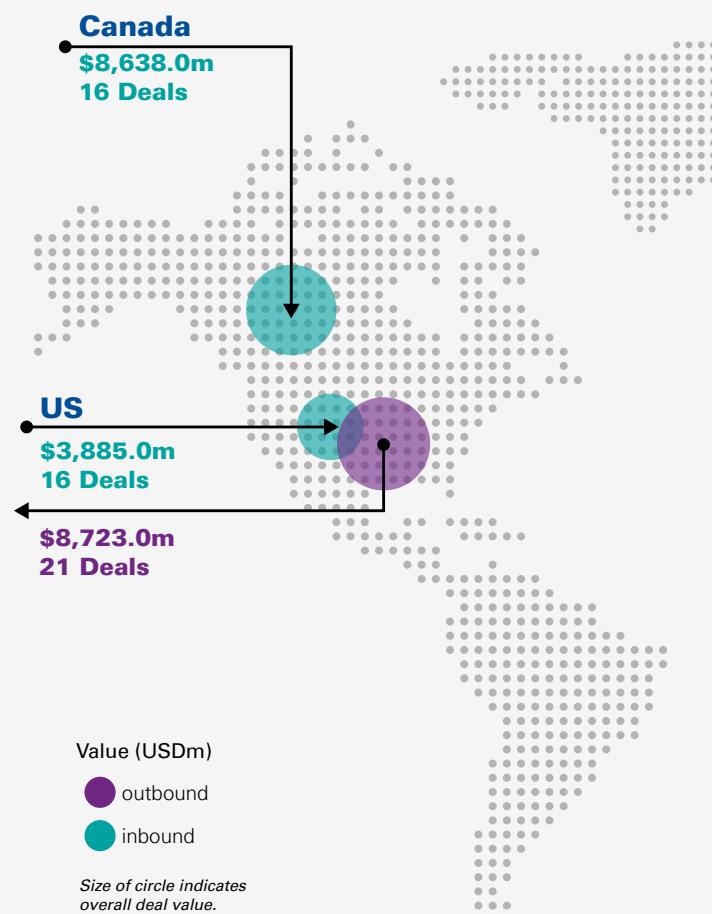
The 2018 renewables market continues to be attractive and promising, says Manuel Santillana, Global ENR Deal Advisory Lead.

"We expect activity to continue moving toward clean energy businesses over the next year or two – the trend toward cleaner generation sources is happening and will continue. Specifically, Southeast Asia, China and India will continue their healthy growth into renewable energies and transactions."

The Utilities environment, however, looks more complicated and challenging, Henry adds. "The market has shifted and we're entering an environment that's very short-term. The market is adjusting to an economic model that supports buying long-term assets with less contract coverage compared to previous years. The Utilities sector side of things will likely be fairly flat and somewhat opportunistic as people work through that market shift."

Top Countries for Deals

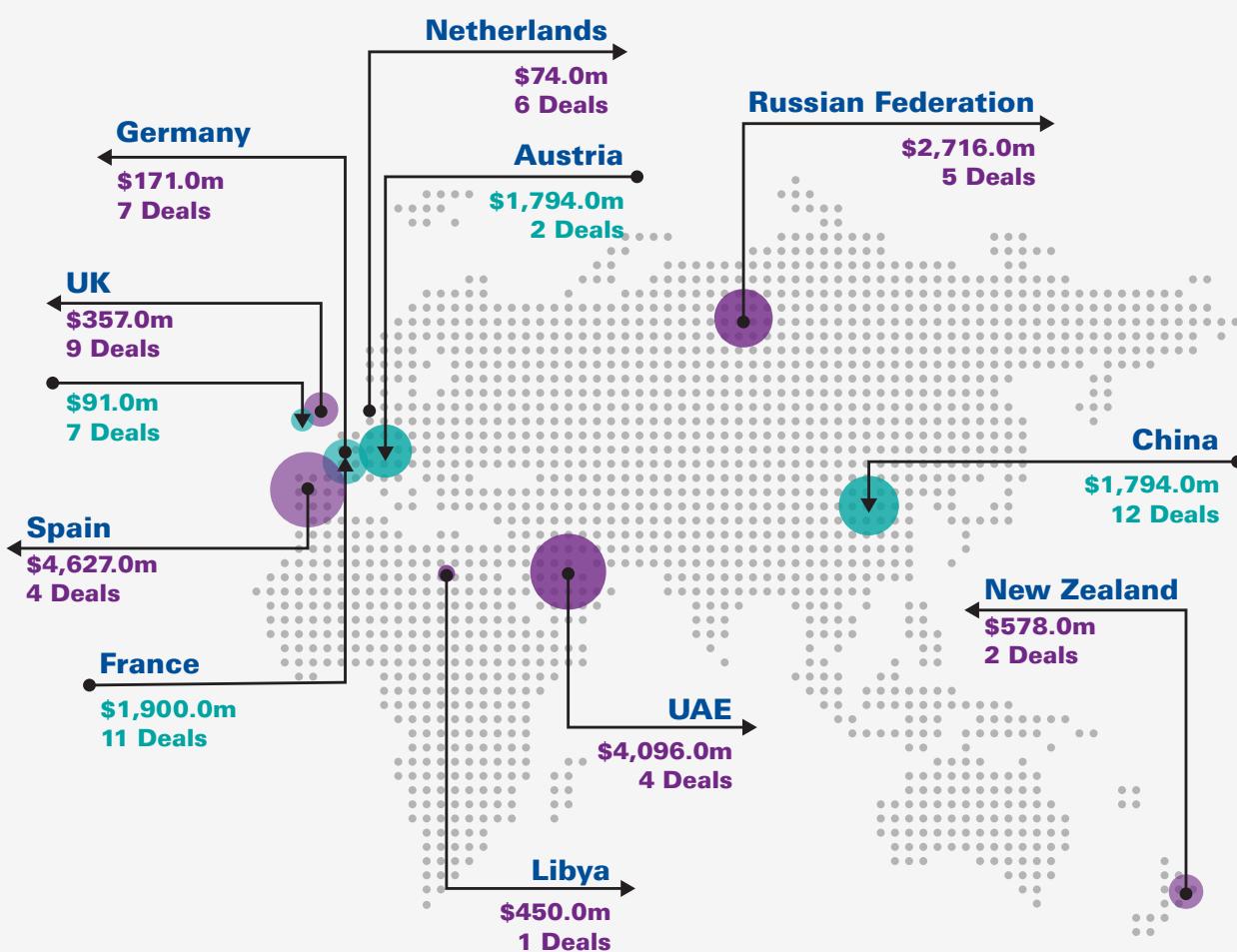
LARGEST COUNTRIES OF ORIGIN		LARGEST DESTINATION COUNTRIES	
BY \$		BY \$	
United States	\$8,723.0m	Canada	\$8,638.0m
Spain	\$4,627.0m	United States	\$3,885.0
United Arab Emirates	\$4,096.0m	France	\$1,900.0
New Zealand	\$578.0m	Austria	\$1,794.0
Libya	\$450.0m	China	\$1,759.0
BY #		BY #	
United States	21	United States	16
United Kingdom	9	Canada	16
Germany	7	China	12
Netherlands	6	France	11
United Arab Emirates	4	United Kingdom	7



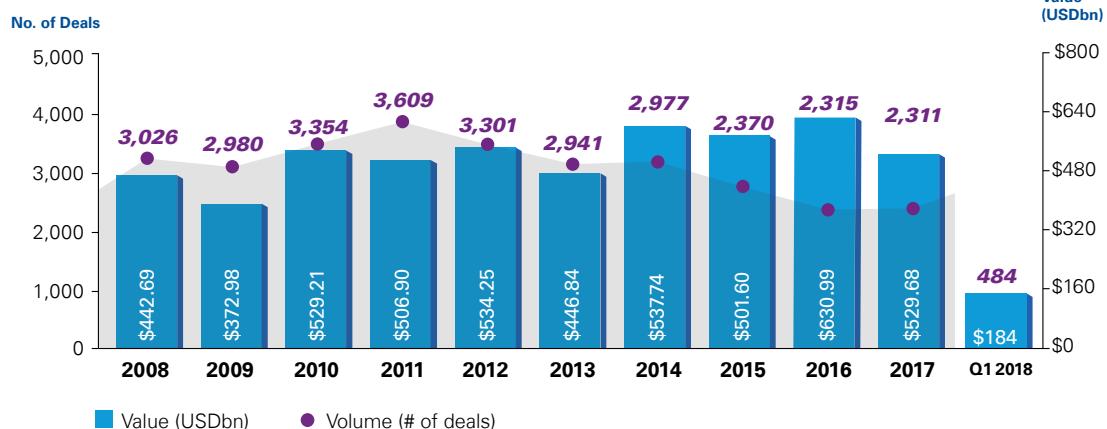
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~ Manuel Santillana, Global ENR Deal Advisory Lead

For additional insights into renewable energy deal trends for 2018 please see KPMG's report: [Great expectations | Deal making in the renewable energy sector.](#)



Ten Year Trend for Energy



Reviewing 2017

The oil and gas market “hit a floor” in 2017, Henry notes, indicating a return to market stability and profitability and a drive for earnings growth. “We’ve gone from a ‘sky is falling’ perspective to a new comfort level now that things have stabilized. Energy businesses are beginning to drive for earnings growth and there is no shortage of available funding in oil and gas, particularly the services side. Companies are willing to re-enter the market, including a big push internationally to invest in North America.”

Deal activity for 2017 in the Energy sector was flat at 2,311 deals while deal value in 2017 was down 16 percent at US\$530 billion versus US\$631 billion for 2016. Average deal size for 2017 was US\$229 million, off about 15 percent from US\$273 million for 2016. The M&A Predictor’s outlook was for the Oil & Gas sector’s corporate appetite to rise 16 percent and the capacity to transact to rise 23 percent and, in the Utilities sector, for corporate appetite to rise 6 percent and the capacity to transact to decline by about 3 percent.

Top deals

	Target Name (Stake %) Target Country	Bidder Name Bidder Country	Value (US\$ million)
1	innogy SE (100%) Germany	E.ON SE Germany	\$54,577.0
2	SCANA Corp (100%) United States	Dominion Energy Inc United States	\$14,561.0
3	Power Station (Thermal power plants) (100%) Japan	JERA Co Inc Japan	\$13,240.0
4	RSP Permian Inc (100%) United States	Concho Resources Inc United States	\$9,566.0
5	Spectra Energy Partners LP (35.39%) United States	Enbridge Inc Canada	\$7,487.0
6	NRG Energy Inc (NRG Yield platform) (100%) United States	Global Infrastructure Management LLP United States	\$7,080.0
7	Snowy Hydro Ltd (87%) Australia	Commonwealth of Australia Australia	\$5,328.0
8	Gas Natural SDG SA (20.07%) Spain	"CVC Capital Partners Ltd (14.97%; 5.1%) Corporacion Financiera Alba SA Rioja Bidco Shareholdings SLU" Spain	\$4,694.0
9	Tallgrass Energy Partners LP (64.27%) United States	Tallgrass Energy GP LP United States	\$3,824.0
10	Hindustan Petroleum Corp Ltd (16.5%) India	Oil & Natural Gas Corp Ltd - ONGC India	\$3,195.0

How can KPMG help

At KPMG firms, we think like investors, looking at how opportunities to buy, sell, partner or fund a company can add and preserve value. Our teams of specialists combine a global mindset and local experience with deep sector knowledge and superior analytic tools to help you navigate a complex, fragmented process. KPMG professionals can help with business strategy, acquisition strategy, plans for divestments or for raising funds.

Further reading

Please visit the Global Deal Institute to find the latest thought leadership around the complexity of today's deal environment, including:



M&A Predictor/2018 Annual Report with Q1 2018 update

The full report contains a global overview and sector reviews for 4 other key global sectors. The online version also provides interactive charts for cross-regional and cross-sector deal tracking.



Great expectations | Deal making in the renewable energy sector

2018 survey of 200 senior-level investors in renewable energy helps uncover opportunities, worries and risk in this growing sub-sector.

kpmg.com/dealsinstitute

Contacts

Leif Zierz

Global Head of Deal Advisory
Managing Partner, KPMG in Germany
T: +49 69 9587 1559
E: lzierz@kpmg.com

Phil Isom

Global Head of M&A, Deal Advisory
Partner, KPMG in the US
T: +1 312 665 1911
E: pisom@kpmg.com

Contributors for full M&A Predictor 2018 Annual Report

Henry Berling

Head of US Energy Investment Banking
Managing Director, KPMG Corporate
Finance in the US
T: +1 804 780 1905
E: hberling@kpmg.com

Danny Bosker

Head of M&A
Partner, KPMG in the Netherlands
T: +31206 567767
E: bosker.danny@kpmg.nl

John Paul (J.P.) Ditty

Global Technology Co-Lead
Managing Director,
KPMG Corporate Finance in the US
T: +1 408 367 3826
E: jpditty@kpmg.com

Cyrus Lam

Global Technology Co-Lead
Managing Director,
KPMG Corporate Finance in the US
T: +1 212 872 5540
E: clam3@kpmg.com

Silvano Lenoci

Deal Advisory
Partner, KPMG in Italy
T: +3902676431
E: slenoci@kpmg.it

Ram Menon

Global Insurance Deal Advisory Lead,
Partner, KPMG in the US
T: +1 212 954 3448
E: rammenon@kpmg.com

James Murray

Global Head of Consumer M&A
Partner, KPMG in the UK
T: +44 20 76945290
E: james.murray@kpmg.co.uk

Stuart Robertson

Global Financial Services Deal
Advisory Lead
Partner, KPMG in Switzerland
T: +41 58 249 53 94
E: srobertson@kpmg.com

Manuel Santillana

Global ENR Deal Advisory Lead
KPMG in Spain
T: +34914565935
E: msantillana@kpmg.es



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