Carlyle, Blackstone Energy Dealmakers Expect More M&A in 2016

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February 22, 2016 — 6:26 PM CET

- Oil rout is once-in-20-years chance for buyout firms: investor
- Producers will sell assets as cash runs low, van Poecke says

Energy investors from firms including Carlyle Group LP and Blackstone Group LP expect oil and gas deal making to increase this year as producers face a cash crunch.

Oil and gas operators, suffering from a decline in commodities prices since mid-2014, will be forced to sell parts or all of their businesses to repay bank loans and continue drilling, said Marcel van Poecke, Carlyle's head of international energy. Many of the companies delayed asset sales last year, spending borrowed money and hoping prices would recover, according to Mustafa Siddiqui, Blackstone's energy head for Europe, the Middle East and Africa.

"We expect a lot of M&A this year," van Poecke said Monday in an interview on the sidelines of the SuperReturn International conference in Berlin. "To be able to keep paying dividends, keep having the money to spend on capital expenditures, but also paying back the banks, people are forced to sell non-core properties."

Carlyle has $12 billion available to invest in energy from North American, international, power and credit funds.

Meanwhile, pain for oil producers will continue, the executives said. Unless the Organization of the Petroleum Exporting Countries agrees to reduce production, the market may take two years to rebalance and could see another $10 to $15 drop in price, van Poecke said. Rahul Advani, a principal at Energy Capital Partners, agreed.

"It probably will temporarily go lower than it is today," Advani said. "This is a once-in-a-10-year, once-in-a-20-year buying opportunity for private equity."

Sidelined Money

While private equity firms have raised more than $20 billion for energy deals in the past two years, the money has largely remained on the sidelines, in part because oil producers have been unwilling to sell. That may quickly change, according to Deloitte LLP, which last week said more than one-third of listed producers worldwide are at high risk of bankruptcy, as their collective debt surged to about $150 billion while cash flows dwindled.

The worst oil rout in three decades has led producers worldwide to reduce drilling, fire workers and cut dividend payments. West Texas Intermediate crude has slumped 70 percent since its mid-2014 peak and hit a 13-year low of $26.21 a barrel earlier this month.

"The do-nothing scenario is disappearing very quickly for a lot of companies," Siddiqui said at the conference. "With every other source of capital drying up, it's difficult not to be excited about the opportunities that are coming up."

Apollo Global Management LLC, which has an $18.4 billion private equity fund as well as natural resources and energy credit pools, will probably focus on buying the debt of struggling producers, hoping to emerge with equity ownership following restructurings, said Greg Beard, the firm's energy head. Publicly listed producers won't sell themselves before trying to raise money using every capital-market option, he said at the conference.

"It's tough to want to buy them out right now," said Beard. "They want to retain that option value."

Blackstone, which finished gathering $4.5 billion for an energy fund last year and can invest alongside that pool using its $18 billion private equity fund, is frequently getting calls from oil and gas producers that a year ago didn't want to talk about potential transactions, Siddiqui said.

Soon private equity firms' approach to energy will shift "from fear to greed," he said.

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