

Acquisition of 70% of ENGIE E&P International

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Private equity-backed operators have poured billions of dollars into the North Sea upstream industry over the last 18 months. Neptune Energy's first deal to buy out ENGIE's portfolio seals the entry of another independent, but is likely to be the last in a flurry of sales of mega-sized upstream portfolios by majors.

While the portfolio bought by Neptune Energy is global, most of the asset-base is in Europe, particularly in the Netherlands. The portfolio includes a mixture of operational and in-development assets.

PE-backed players such as Neptune have had to be patient for this deal which propels them into a fully-fledged operator. Private equity firms the Carlyle Group and CVC Capital Partners launched Neptune Energy in 2015 with a target to deploy \$5 billion. They put at the helm of their new company Sam Laidlaw, former Centrica CEO.

Two years later in May 2017 [Neptune entered exclusive discussions with ENGIE](#) for its first investment – the ENGIE E&P International (EPI) business, which ENGIE says it sold for an aggregate value of €4.7 billion (May 2017).

Laidlaw says the aim will be to IPO Neptune Energy, as it becomes a leading independent in the next five years.

The acquisition package

Neptune Energy committed to buy 70% of shares in EPI. Sovereign fund China Investment Corporation (CIC) has owned 30% of EPI since 2011 and is retaining its shares. Furthermore CIC has alluded to the possibility of increasing its shareholding in the future.

Neptune Energy's purchase, completed on 15 February 2018, includes:

- \$3.9 billion consideration for the 70% shareholding
- €1.1 billion assuming liabilities for decommissioning
- €90 million of deferred payments linked to operational milestones

In this transaction ENGIE has retained no liability for dismantling the assets, an ENGIE spokesperson confirmed.

Reza Dadbaksh, an M&A partner at Herbert Smith Freehills, comments: "Against the backdrop of lingering uncertainty regarding the oil price, there has been an increased use of consideration structures that involve a deferred element contingent on the oil price, further discoveries or reserves, or significant project milestones. We expect this trend to continue."

To support its consideration, Neptune Energy has raised a roughly \$2 billion reserve based lending (RBL) facility to fund part of its \$3.9 billion consideration. The tenor is approximately seven years.

A lead bank club initially supported Neptune and then launched a syndication in the summer of 2017. A source told *IJGlobal* that there are 29 lenders named in the documents post-syndication.

The original lenders given the title of MLA and bookrunner, providing equal commitments, are:

- BNP Paribas
- Citi
- HSBC
- ING
- Natixis

- Societe Generale
- Bank of China
- Deutsche Bank
- DNB
- JP Morgan
- RBC Europe
- Scotiabank

Meanwhile they were joined by additional lenders in the syndication, with smaller commitments, including:

- ABN Amro
- Australia and New Zealand Banking Group
- BMO Capital Markets
- Commonwealth Bank of Australia
- Goldman Sachs
- Lloyds
- Morgan Stanley
- RBS
- SMBC

The banks on the RBL come from the UK, Netherlands, Germany, France, Netherlands, and Norway in Europe, and then also from the US, Canada, Japan, China and Australia.

The mix reflects the international portfolio of assets, and also shows a healthy RBL market. After RBS, Lloyds and Bank of Scotland retreated from their North Sea dominance during the global financial crisis, international lenders have filled the gap. BNP Paribas has been leading as number one resources bank, those in the industry say, while other banks committed to natural resources exposure throughout the cycles include ING, DNB, BMO and CBA.

Private equity funds, increasingly investing in the sector, tend to lever their independent companies with RBLs, unlike the corporates. They are bringing their relationship lenders, while some banks are taking a slice as they have core capabilities in derivatives and commodities, or are following futures transactions.

Private equity's ascent

The private equity funds have changed their approach to investing when it comes to targeting oil and gas, a banker pointed out, and are taking an investment approach for 7-9 years rather than their usual 3-5 years before churning assets. They have had to be patient in the upstream sector to find the right deal. "The private equity investment boards have matured tremendously in this regard", one of the lenders said.

EIG Global Energy and Noble Group set up Chrysaor Holdings in 2007 when it bought shares in the North Sea Solan oil discovery and then in 2017 bagged a major purchase by taking [Shell's North Sea portfolio](#) for up to \$3.78 billion. Dutch oil and gas company [OMV's divestment from the North Sea](#) gave Blackstone and Blue Water Energy-backed Siccar Point its game-changing \$1 billion transaction in November 2016. HitecVision-backed [Point Resources bought](#) ExxonMobil's Norwegian upstream business in 2017.

Other names to look out for in the future include Arclight and Tailwind, and Blackstone and Blue Water Energy's new \$1 billion Norway focused Mime Petroleum.

These PE-backed vehicles are not just looking for the mega portfolio deals, but also single asset deals. They are targeting operational as well as in-development assets.

Mega portfolio M&A deals are not expected to be the trend of 2018, as they were for 2016-17. The E&P majors have mostly wrapped up their divestment programmes according to their results statements. "We expect more medium-sized M&A this year, around the \$200-700 million scale," an RBL lender says, "Though the volume of deals could be higher than 2017."

Victoria McCulloch, energy research analyst at RBC Capital Markets, says: "Particularly in Norway we have seen PE funds investing in medium-sized deals."

"BP has the largest portfolio still remaining in the UK North Sea and has only done smaller deals within its large portfolio.... ExxonMobil and

Taqa may sell some assets, and ConocoPhillips could downsize and still keep its exposure to the North Sea.”

The portfolio

The EPI portfolio’s 2017 production averaged 154,000 net barrels of oil equivalent per day.

A Neptune spokesperson said initially the focuses for the business are: operating Gjøa gas field in Norway and the Cygnus field in the UK, developing Romerberg field in Germany, L5 block in the Netherlands, and Bonaparte in Australia.

ENGIE is holding onto a 30% minority stake in the in-development Touat field in Algeria, which it says was “given ENGIE’S strong historical relationships with Algeria and commitment to bring it to first gas”. Neptune has become operator and state-owned Sonatrach owns the remainder. ENGIE has committed some vendor finance for Touat, as part of the terms of the sale. The majority of this finance will fund EPI’s shares of Touat cap-ex until first gas and ENGIE will be refunded with cash flows generated from the asset.

EPI also has the Jangkirk LNG project in Indonesia, another large asset in its portfolio.

ENGIE’S transformation

The sale of the non-core E&P business contributes a great deal toward ENGIE’s €15 billion rotation programme, which by 8 November 2017 was already 83% achieved. An update is due on 8 March.

ENGIE is prioritising renewables growth worldwide with a target to reach 25% energy production from renewable sources.

ENGIE also agreed the sale of its upstream and midstream LNG business to French oil and gas major Total in November 2017 for \$1.49 billion.

Advisers

Neptune’s advisers on the acquisition were:

- Zaoui & Co – lead financial
- BNP Paribas – financial
- Citi – financial
- Freshfields Bruckhaus Deringer - legal
- Herbert Smith Freehills - lenders' legal

ENGIE’s advisers were:

- Goldman Sachs – financial
- Bank of America Merrill Lynch - financial

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