

Energy Sector M&A In 2012: Staying Ahead Of The Competition

Kenneth Wee
Solutions Architect
(1) 212-438-1950
kenneth_wee@spcapitaliq.com

- Energy sector M&A set a record pace in 2011, and activity is strong so far in 2012.
- Unconventional assets will be key drivers in energy sector M&A in 2012.
- Linn Energy LLC appears to be one of the top potential strategic investors for this sector in 2012.

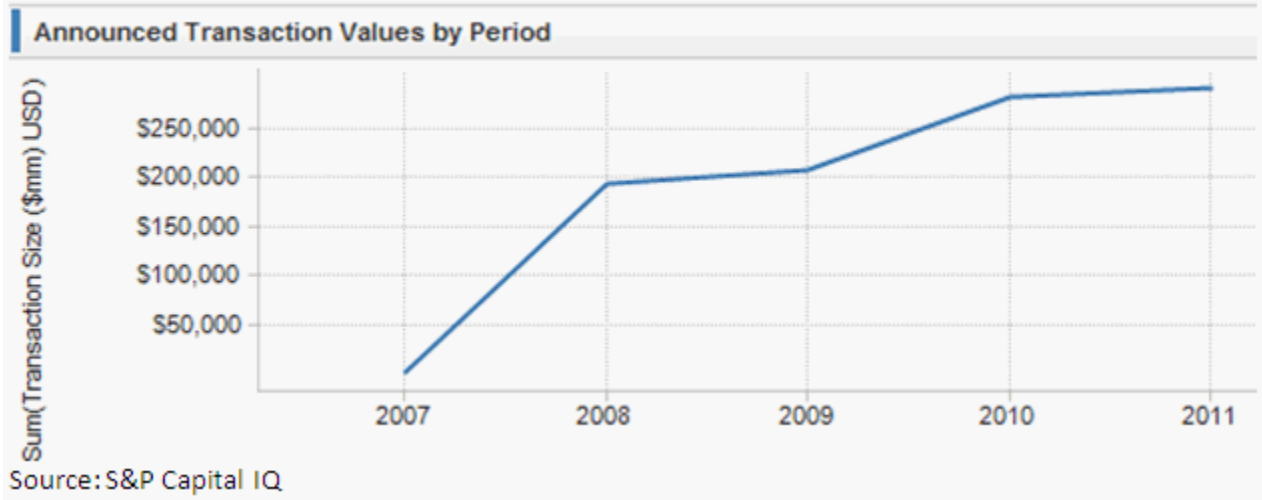
Merger and acquisitions (M&A) in the energy sector reached a new high in 2011, and all signs indicate activity and consolidation will continue, particularly among upstream firms. Deals for assets related to unconventional resources and their development, especially those that are liquids-rich, are expected to keep dominating the headlines. To help our clients stay ahead of the competition in this intense deal-making environment, S&P Capital IQ's Solutions Architects team has put together a series of analyses and screens utilizing our data, technology, and expertise that will help clarify trends and identify key players and their activities on an ongoing basis. The first section of this report highlights key M&A drivers coming out of 2011 and into 2012. The second section looks at the deals in 2012 so far, and considers who might be active this year, with further leverage from our proprietary "Find Buyer" tool.

2012 M&A Is Well Under Way

M&A activity in the energy sector is already well under way in 2012, with 151 deals worth an estimated \$32 billion announced in North America by the end of February, along with an additional 133 deals worth \$7.4 billion announced elsewhere worldwide, according to data from S&P Capital IQ. This was no surprise, as M&A activity in 2011 was very strong to begin with and came on the back of a rising trend (see chart 1).

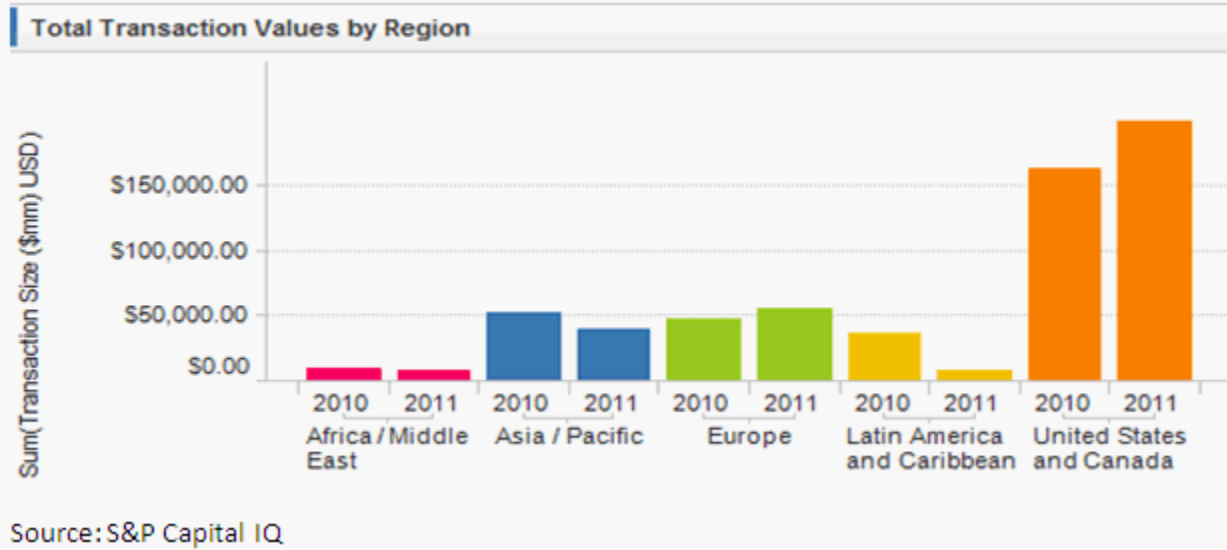
Solutions Exchange is developed by S&P Capital IQ's Solutions Architects, a separate and independent team at Standard & Poor's. The objective of this analysis is to gain greater insight into specific events and trends in the market using S&P Capital IQ data and analytics solutions.

Chart 1: Worldwide Energy Sector M&A Trend, 2007-2011



For oil and gas producers, the path to growth in 2011 came from developing unconventional resources, as competition for production assets increased. It appears that 2012 will not be any different, barring a new geopolitical crisis. Rising demand as well as increasing competition from national oil companies (NOCs) has led to exceptionally high levels of asset purchases in North America, which has large amounts of well-identified but undeveloped shale and tight gas reserves. As a result, activity in North America surpassed activity in all other regions in 2011 (see chart 2), and this is not expected to change in 2012 if oil prices remain high.

Chart 2: Energy M&A Values By Region, 2010-2011



The distribution of M&A deals in North America in 2011 (see table 1) reflects a strong bias toward acquiring oil and gas exploration and production assets, followed by--as a consequence of the same driving forces behind that trend, such as higher oil prices--oil and gas storage and transportation assets.

Table 1

2011 North America M&A By Acquisition Target Sector		
Industry of target	No. of transactions	Total reported transaction value (mil. \$)
Coal and consumable fuels	77	14,814
Oil and gas exploration and production	796	80,364
Oil and gas refining and marketing	47	9,292
Oil and gas storage and transportation	74	65,880
Oil and gas drilling	17	10,636
Oil and gas equipment and services	107	12,213

Source: S&P Capital IQ.

The average deal size in North America (see table 2) grew in 2011 relative to 2010, reflecting increasing demand for assets and perhaps a better ability to fund M&A. While total enterprise value (TEV)/revenue inched up slightly, TEV/EBITDA fell from above the all-sector average to below the average, reflecting the market's recognition that some caution had become necessary. The distribution of deals by size did not change significantly in 2011 relative to 2010, with more buyers and sellers choosing not to disclose deal terms, which is perhaps a sign that this has become a seller's market.

Table 2

	--Energy--		--All sectors--	
	2011	2010	2011	2010
Average deal value (mil. \$)	282.81	205.69	149.57	132.97
Average TEV/revenue	7.50	7.46	3.88	5.95
Average TEV/EBITDA	15.84	17.11	16.37	16.39

Source: S&P Capital IQ.

Table 3

	--Energy 2011--		--Energy 2010--	
Greater than \$1 billion	26	2%	27	2%
\$500 million to \$999.9 million	33	3%	38	3%
\$100 million to \$499.9 million	104	9%	130	12%
Less than \$100	530	46%	549	50%
Undisclosed	466	40%	356	32%

Source: S&P Capital IQ.

A look at the biggest energy M&A deals in North America in 2011 reveals several trends (see table 4 for the top 10 or the Appendix for a full list). First, and least surprisingly, is that the top 10 list is dominated by upstream and midstream deals. Second, as has already been noted, there are many international participants. Third and slightly less obvious, strategic investors are the main buyers and financial investors are the main sellers, though the Samson Investment Co. deal is a notable exception. Fourth, and observable not by their presence as much as their absence, is the absence of the international oil companies (IOCs), except for Total S.A. as a buyer, and BP appears as a seller.

Table 4**Selected Notable M&A Announcements In North America, 2011**

Transactions announced date	Target/Issuer	Industry (target/issuer)	Total transaction value (mil. \$)	Buyers/investors	Sellers
10/16/2011	El Paso Corp.	Oil and gas exploration and production	35,658.22	Kinder Morgan Inc.	Icahn Capital LP
7/14/2011	Petrohawk Energy Corp.	Oil and gas exploration and production	15,753.62	BHP Billiton Ltd.	Caxton Associates LP; CastleRock Management LLC; GLG Partners Inc.; Bass Companies; Ridgecrest Investment Management LLC; GLG North American Opportunity Fund; GLG Investments PLC - GLG North American Equity; Guggenheim Advisors; CastleRock Partners L.P.; Global Capital Ltd.; Chestnut Ridge Capital LLC
6/15/2011	Southern Union Co.	Oil and gas storage and transportation	9,376.98	Energy Transfer Equity L.P.	BlackRock Inc.; Baron Capital Group Inc; Kensico Capital Management Corp.
2/6/2011	Pride International Inc.	Oil and gas drilling	9,219.45	Enesco PLC	-
1/28/2011	Alpha Appalachia Holdings Inc.	Coal	8,423.22	Alpha Natural Resources Inc.	-
11/23/2011	Samson Investment Co.	Oil and gas exploration and production	7,200.00	Kohlberg Kravis Roberts & Co.; NGP Energy Capital Management; Itochu Corp.; Crestview Partners L.P.	-
10/17/2011	Brigham Exploration Co.	Oil and gas exploration and production	5,004.59	Statoil ASA	-
2/21/2011	Fayetteville Shale Assets	Oil and gas exploration and production	4,819.00	BHP Billiton Petroleum Inc.	Chesapeake Exploration LLC; Larchmont Resources LLC; Chesapeake Investments L.P.
5/31/2011	Hilcorp Resources Holdings LP	Oil and gas exploration and production	3,500.00	Marathon Oil Corp.	Kohlberg Kravis Roberts & Co.; Hilcorp Energy Co.
8/17/2011	CNX Gas Co. LLC, 663,350 Marcellus Shale Acres And Marcellus Gathering Assets	Oil and gas exploration and production	3,415.89	Noble Energy Inc.	CNX Gas Company LLC

Source: S&P Capital IQ.

Unconventional Assets Will Keep Driving Activity In 2012

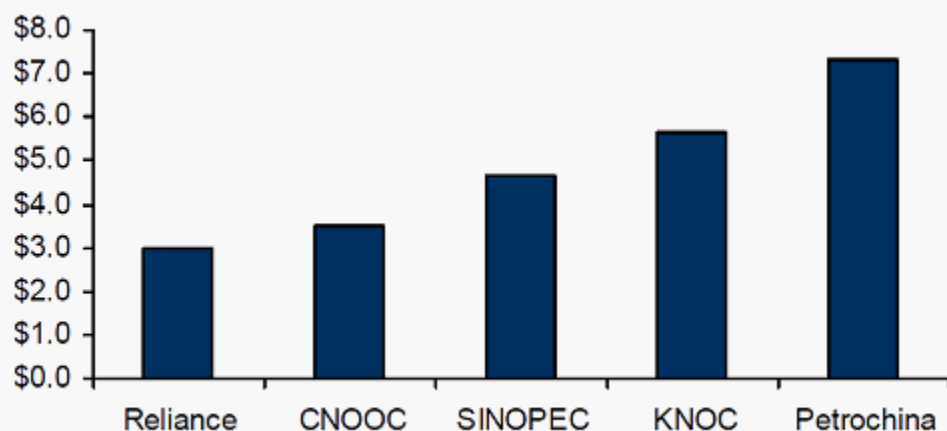
According to Standard & Poor's Ratings Services, many trends driving M&A activity in 2011 are expected to continue in 2012, such as solid liquidity and cash flow among oil and gas companies, due to strong crude oil prices {1}. S&P Capital IQ Equity Research currently has a positive fundamental outlook on the independent exploration and production sector, with potential opportunities in onshore liquids offsetting low domestic natural gas prices {2}. S&P Capital IQ Equity Research expects exploration and production to grow by 12% in 2012, with oil and natural gas liquids (NGL) production growing by 16%, supported by a 15% increase in capital expenditures {3}. This growth will inevitably be inorganic as well as organic, and lead to further acquisitions in this space. Demand will be strongest from the strategic investors, and financial investors may continue to sell rather than acquire more assets in a sector already reaching a plateau in terms of valuation.

As for the IOCs, it is certainly possible that their activity in North American unconventional oil and gas will increase in 2012. Their focus may be elsewhere, such as China, with Chevron working in a joint venture with Sinopec in Guizhou province and Shell working together with the China National Petroleum Corp. on gas exploration in the province of Sichuan.

International appetite for U.S. production assets and know-how, especially in unconventional production, is also expected to continue, as with 2011 deals such as BHP Billiton's purchase of Petrohawk and Korea National Oil Corp.'s purchase of Parallel Petroleum. According to S&P Capital IQ Equity Research and IHS Herold estimates, government-backed national oil companies (NOC)s have invested more than \$30 billion in North America (see chart 3), as they look to grow production, reserves, and know-how, while avoiding the kind of political response that grew out of CNOOC's attempted purchase of Unocal in 2005.

The Asian NOCs are particularly active, as companies like Sinopec and CNOOC target onshore plays and benefit from not needing public financing, unlike the IOCs. On March 17, 2012, the China Daily reported that the Chinese National Energy Administration had targeted increasing shale gas production to 6.5 billion cubic meters by 2015 and 100 billion cubic meters by 2020 via a program of subsidies, and also noted that the company was exempt from import duties for technology making shale exploration easier. In particular, the head of the Chinese National Energy Administration singled out the adoption of "various advanced technologies from foreign companies" (The China Daily website) as a strategy to boost development. This program will undoubtedly spur more acquisitions in shale companies by Chinese firms, where companies like CNOOC are already heavily active (see table 5).

Chart 3: Selected Total NOC M&A Activity In North America Since 2009, USD Billions



Source: S&P Capital IQ Equity Research and IHS Herold

Table 5

CNOOC Ltd. M&A And Private Placement Activity Since 2010						
Announced date	Transaction type	Role	Target	Buyer/investors	Sellers	Size (mil. \$)
1/18/2012	M&A	Buyer	Zhuhai Donghua Natural Gas Co. Ltd.	CNOOC Ltd.	China Petroleum & Chemical Corp.	-
10/24/2011	M&A	Seller	CNOOC Onwj Ltd.	PT Energi Mega Persada Tbk	CNOOC Ltd.	212.00
7/20/2011	M&A	Buyer	OPTI Canada Inc.	CNOOC Ltd.		2,331.55
1/30/2011	M&A	Buyer - parent	Chesapeake Energy Corp., 800,000 Net Oil and Natural Gas Leasehold Acres in Denver-Julesburg	CNOOC International Ltd.	Chesapeake Energy Corp.	570

Table 5

CNOOC Ltd. M&A And Private Placement Activity Since 2010 (cont.)						
12/8/2010	Private placement	Buyer	China United Coalbed Methane Co. Ltd.	CNOOC Ltd.		162.04
11/28/2010	Private placement	Target - parent	Bridas Corp.	Bridas Energy Holdings Ltd.; CNOOC International Ltd.		4,928.78
10/28/2010	M&A	Seller	Husky Oil (Madura) Ltd.	Samudra Energy Ltd.	CNOOC Ltd.; Husky Energy Inc.	-
10/10/2010	M&A	Buyer - parent	Chesapeake Energy Corp., Eagle Ford Shale Project	CNOOC International Ltd.	Chesapeake Energy Corp.	2,200.00

Source: S&P Capital IQ.

M&A Year-To-Date 2012

Do the deals of 2012 so far signal any kind of change from the deals in 2011? According to S&P Capital IQ Equity Research, as mentioned earlier in the article, the focus is very much on liquids-rich unconventional production and transportation assets. In terms of the type of transaction, we still see a mix of specific asset purchases as well as corporate M&A occurring, as different kinds of buyers have different strategic intentions (see table 6). Overseas investors are more likely to buy specific assets, while private-equity firms as well as firms looking to diversify and acquire know-how still look to buy whole companies. With weak natural gas prices, liquids-rich assets will dominate, and with relatively lower profitability from natural gas itself, joint ventures are also gaining in popularity as a means of using capital efficiently and--for foreign companies--quietly.

Several notable transactions have already occurred in 2012, with international companies Sinopec and Marubeni making acquisitions in shale assets. Private-equity firms were both buyers and sellers, with Apollo buying EP Energy Corp. and Carlyle Group divesting itself of Dynamic Offshore Resources, indicating that at least some parties anticipate a peak in valuations.

Table 6

Representative Upstream M&A In North America In 2012				
Date	Target	Buyer(s)	Seller(s)	Transaction value (mil. \$)
2/24/2012	EP Energy Corp.	Apollo Global Management LLC; Access Industries Inc.; Riverstone Holdings LLC	El Paso Corp.	5,161
1/23/2012	Cordillera Energy Partners III LLC	Apache Corp.	EnCap Investments L.P.	1,833
1/3/2012	Devon Energy Corp., Five U.S. Shale Oil and Gas Fields	Sinopec International Petroleum Exploration & Production Corp.	Devon Energy Corp.	1,596
1/6/2012	Hunt Oil Co. (35% interest in Eagle Ford assets)	Marubeni Corp.	Hunt Oil	1,300 (estimate)
2/1/2012	Dynamic Offshore Resources LLC	SandRidge Energy Inc.	The Carlyle Group LP; Riverstone Holdings LLC	793
2/27/2012	BP America Production Co., Hugoton Basin Properties in Kansas	Linn Energy LLC	BP America Production Co.	758
2/28/2012	Midway Energy Ltd.	Whitecap Resources Inc.	Connor, Clark & Lunn Investment Management Ltd.; Hesperian Capital Management Ltd.; Front Street Investment Management Inc.; Annapolis Capital Ltd.	318
2/16/2012	PetroBakken Energy Ltd., Non-Core Southeast Saskatchewan Assets	Crescent Point Energy Corp.	PetroBakken Energy Ltd.	271

Table 6

Representative Upstream M&A In North America In 2012 (cont.)				
1/16/2012	Venoco Inc.	Timothy M. Marquez	Venoco Shareholders (ex T. Marquez)	250
1/8/2012	SilverBirch Energy Corp.	Teck Resources Ltd.	West Face Capital Inc; Talos Capital Ltd.; The Children's Investment Fund Management (UK) LLP	243

As of Feb. 29, 2012. Source: S&P Capital IQ.

Potential 2012 M&A: Will There Be Appetite Satiation?

Preparing for 2012 in this space requires a good understanding of the potential key actors. S&P Capital IQ Solutions Architects believe one of the best ways to stay ahead of the M&A curve is having a solid pipeline of potential deals and intelligence on who might be part of those deals. To help in looking into that, we analyzed the most active buyers in 2011 in the energy sector (see tables 7 and 8).

Table 7

Most Active Buyers/Investors By Number Of Transactions, 2011 North America Energy M&A	
Company	Number of transactions
Red Mountain Resources Inc.	8
Victory Energy Corp.	8
American Standard Energy Corp.	7
Mountainview Energy Ltd.	6
Petroleum Development Corp.	6
Ante5 Inc.	5
Hemisphere Energy Corp.	5
Linn Energy LLC	5
Marathon Oil Corp.	5

Source: S&P Capital IQ.

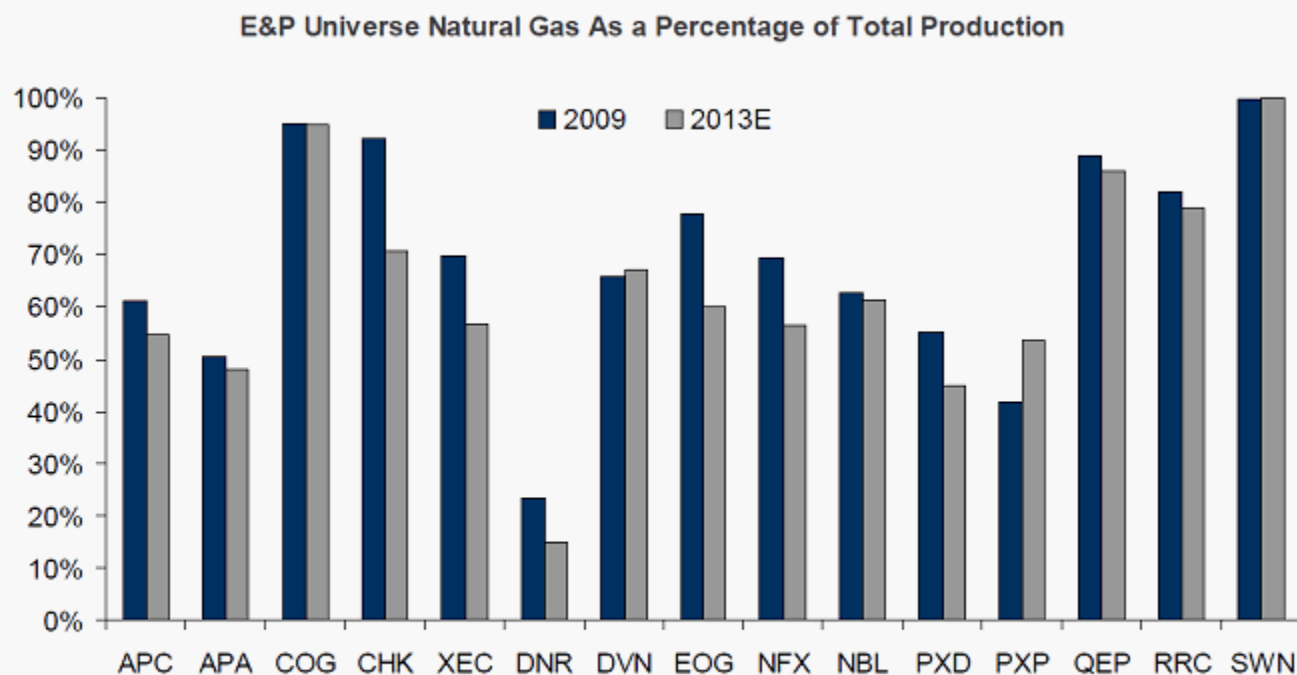
Table 8

Most Active Buyers/Investors By Total Transaction Size, 2011 North America Energy M&A	
Company	Total transaction size (mil. \$)
Kinder Morgan Inc.	35,658.22
BHP Billiton Ltd.	15,753.62
Energy Transfer Equity L.P.	9,376.98
EnSCO PLC	9,219.45
Alpha Natural Resources Inc.	8,423.22
Itochu Corp.	7,220.75
Kohlberg Kravis Roberts & Co.	7,200.00
NGP Energy Capital Management	7,200.00
Crestview Partners L.P.	7,200.00

Source: S&P Capital IQ.

Are companies that were active in 2011 likely to be active again in 2012? While past performance cannot always be indicative of future results, we could surmise that companies that were active buyers like Red Mountain Resources may decide to take a pause in 2012. On the other hand, as natural gas dominates most domestic energy companies' portfolios, we might also think that further acquisitions of productive assets, especially those that are oil-bearing, would continue with oil prices remaining high (see chart 4).

Chart 4: E&P Universe Natural Gas As A Percentage Of Total Production



Source: S&P Capital IQ Equity Research; Company Data. APC=Anadarko Petroleum; APA=Apache Corp.; COG=Cabot Oil & Gas; CHK=Chesapeake Energy; XEC=Cimarex Energy; DNR=Denbury Natural Resources; DVN=Devon Energy; EOG=EOG Resources; NFX=Newfield Exploration; NBL=Noble Energy; PXD=Pioneer Natural Resources; PXP=Plains E&P; QEP=QEP Resources; RRC=Range Resources; SWN=Southwestern Energy

Table 9 shows how some of the companies with the lowest EBITDA margins are catching up by seeking to increase their oil production as quickly as possible. EOG Resources and Chesapeake Energy, with some of the lowest EBITDA margins, also have the highest one-year growth rates in their oil production, and EOG has the second highest NGL production growth. This implies that such companies will have the greatest appetite to increase their production of liquids and will continue to be potential buyers in 2012 of liquids-rich assets.

Table 9

Relating EBITDA Margin To Oil, Gas, And NGL Production Growth				
Company	LTM EBITDA margin (%)	One-year growth, oil production	One-year growth, gas production	One-year growth, NGL production
Pioneer Natural Resources Co.	77	24	(1)	14
Apache Corp.	76	5	20	56
Devon Energy Corp.	65	10	2	14
Noble Energy Inc.	64	0	3	5
Nexen Inc.	61	(18)	(8)	
Encana Corp.	60	5	5	
Talisman Energy Inc.	59	(4)	22	
Canadian Natural Resources Ltd.	56	(8)	1	
EOG Resources Inc.	54	52	(5)	39
Chesapeake Energy Corp.	38	72	9	

Table 9**Relating EBITDA Margin To Oil, Gas, And NGL Production Growth (cont.)**

Data as of April 3, 2012. Source: S&P Capital IQ.

Following up on our identification of EOG and Chesapeake, we note that S&P Capital IQ Equity Research analysts have also identified these companies--through fundamental analysis--as making strong transitions to liquids. EOG is allocating 80% of a \$7 billion Capex plan to liquids and has 22 rigs at its Eagle Ford location. Similarly, Chesapeake aims to decrease natural gas to 70% of total production from 90% by the end of 2013 and plans to spend 75% of its \$6.5 billion Capex plan on liquids opportunities. In tables 10 and 11, we examine their recent M&A activity (see the Appendix for more complete data). EOG has been involved mostly in sales of assets in 2011, indicating great potential to be a buyer in 2012, given their plans. Chesapeake, which is already considered the most active U.S. driller, has been engaged in a series of both sales and acquisitions, perhaps indicating a more measured approach to gaining strategic focus.

Table 10**EOG Resources Representative M&A Activity Since 2009**

Announced date	Role	Target	Buyer/investors	Sellers	Size (mil. \$)
6/3/2011	Seller	EOG Resources Inc., Condensate Recovery Plant and the Prairie Rose Pipeline	Aux Sable Liquid Products LP	EOG Resources Inc.	185.00
3/18/2011	Seller - parent	Kitimat LNG Export Terminal, on West Coast of Central British Columbia	Encana Corp.	Apache Canada Ltd.; EOG Resources Canada Co.	-
3/4/2011	Seller	EOG Resources Inc., 7,700 Undeveloped Net Acres in McKenzie County, North Dakota	Triangle Petroleum Corp.	EOG Resources Inc.	34.10
2/7/2011	Buyer - parent	Pacific Trail Pipelines Limited Partnership	Apache Canada Ltd.; EOG Resources Canada Inc.	Pacific Northern Gas Ltd.	51.05
1/10/2011	Seller	EOG Resources Inc., Oil and Gas Properties in the Covington Township Area of Tioga County	Seneca Resources Corp.	EOG Resources Inc.	24.10

Source: S&P Capital IQ.

Table 11**Representative Chesapeake M&A Activity Since 2011**

Announced date	Transaction type	Role	Target	Buyer/investors	Sellers	Size (mil. \$)
2/9/2012	M&A	Seller - parent	Eagle Well Services Inc.	Steel Excel Inc.	Bronco Drilling Co. Inc.	-
12/28/2011	M&A	Seller - parent	Appalachia Midstream Services L.L.C.	Chesapeake MLP Operating L.L.C	Chesapeake Midstream Operating L.L.C.	862.71
11/3/2011	M&A	Seller	650,000 Net Acres in Utica Shale Area	Total E&P USA Inc.	Chesapeake Energy Corp.; EnerVest Ltd.	2,440.00
11/1/2011	Private placement	Target - parent	CHK Utica L.L.C.	EIG Global Energy Partners; GSO Capital Partners LP; Magnetar Capital LLC		1,250.00
8/27/2011	M&A	Buyer	Central Park One and Central Park Two in Oklahoma City	Chesapeake Energy Corp.	Rosemont Realty LLC	29.74
7/29/2011	M&A	Buyer	1.2 Million Acres in Ohio Shale Prospect	Chesapeake Energy Corp.		-
7/11/2011	Private placement	Buyer - parent	Sundrop Fuels Inc.	Chesapeake Natural Gas Ventures Corp. Oak Investment Partners		175.00
7/11/2011	Private placement	Buyer - parent	Clean Energy Fuels Corp.	Chesapeake Natural Gas Ventures Corp. Oak Investment Partners		150.00

Table 11**Representative Chesapeake M&A Activity Since 2011 (cont.)**

Source: S&P Capital IQ.

The S&P Capital IQ Screening Tool

S&P Capital IQ maintains technology that allows users to find buyers that meet certain criteria, particularly related to their past interest in particular kinds of assets as well as their stated interest. The "Find Buyer" tool uses a sophisticated scoring system that looks at firms' activity, related current investments, and characteristics to identify potential buyers in any particular space, industry, or geography, and allows differentiation between strategic and financial investors. Running the screen separately on strategic and financial investors, we arrive at tables 12 and 13 (see the Appendix for more detail).

Table 12**Representative Financial Investors With Recent Activity In Acquiring E&P Assets**

Company	Investment score	Related current investments
Kayne Anderson Capital Advisors L.P.	89	Momentum Oil and Gas LLC; Newton Energy Partners LLC; Raptor Petroleum II LLC; Treadstone Energy Partners LLC
EnCap Investments L.P.	88	FireWheel Energy LLC; Forge Energy LLC; US Infrastructure Holdings LLC
Iroquois Capital LP	88	Gale Force Petroleum Inc.; Gravis Oil Corp.; Tri-Valley Corp.
KERN Partners	88	Black Swan Energy Ltd.; Ember Resources Inc.; Osum Oil Sands Corp.
CPP Investment Board	87	Black Swan Energy Ltd.; Teine Energy Ltd.

This is a partial list of the Financial Investors showing recent activity in acquiring E&P assets. For a more complete list, see the Appendix. Source: S&P Capital IQ.

Table 13**Representative Strategic Investors With Recent Activity In Acquiring E&P Assets**

Company	Investment score	Related investments
Linn Energy LLC	92	BP America Production Co., Hugoton Basin Properties in Kansas (Pending Acquisition/Investment); Certain Oil And Natural Gas Properties in North Dakota (Merged Entity); Concho Resources Inc., Certain Oil And Natural Gas Properties in The Bakken Play (Merged Entity); Oil and Natural Gas Properties in North Dakota (Pending Acquisition/Investment); Oil and Natural Gas Properties in Permian Basin in Texas (Merged Entity); Plains Exploration & Production Co., Granite Wash Property (Merged Entity); Properties in East Texas (Pending Acquisition/Investment)
Mountainview Energy Ltd.	91	1,680 acres in Montana State Lands (Merged Entity); 4,566 acres in the South Alberta Bakken Play (Merged Entity); 67,000 Acres in the Medicine Lake Prospect (Pending Acquisition/Investment); SM Energy Co., Wolter 13-23H Well; The Snoose Coulee Field; Working Interest in Certain Lands in the Williston Basin in Montana
Crescent Point Energy Corp.	90	750 Boe/d of Production and 78 Net Sections of Lower-Risk Land in North Dakota (Merged Entity); Manitoba Light Oil Assets (Merged Entity); PetroBakken Energy Ltd., Non-Core Southeast Saskatchewan Assets (Pending Acquisition/Investment); Reliable Energy Ltd.; Wild Stream Exploration Inc. (Current Subsidiary/Operating Unit)
Marathon Oil Corp.	90	19,000 Net Acres and Gas Gathering System in Eagle Ford Shale Area (Merged Entity); 29,000 acres in Eagle Ford Shale in South Texas (Merged Entity); 30,000 Additional Acres (Merged Entity); 6,800 Net Acres in Eagle Ford Shale Area (Merged Entity); Hilcorp Resources Holdings LP (Current Subsidiary/Operating Unit)
Aurora Energy Partners	89	Jones County Play ; North Killarney Oil Prospect ; V-F Petroleum Uno Mas No. 1 in Lea County, New Mexico ; Working interest in 3,186 Acre position in the Wolfberry Resource Trend

This is a partial list of the Financial Investors showing recent activity in acquiring E&P assets. For a more complete list, see the Appendix. Source: S&P Capital IQ.

One of the companies identified as a potential strategic investor through the "Find Buyer" tool was Linn Energy. Therefore, we next decided to investigate their M&A activity since 2009, which revealed a long list of acquisitions since the beginning of 2009 (see table 14 for the most recent activity or the Appendix for more detail). For investors (or sellers) who wish to understand who might be in play, a study of their activity might yield some insight. Linn's strong and early start to 2012 certainly indicates the company believes that the time is still right to buy.

Table 14**Linn Energy, LLC Representative M&A Activity**

Announced date	Role	Target	Sellers	Size (mil. \$)
3/9/2012	Buyer	Properties in East Texas		175
2/27/2012	Buyer	BP America Production Co., Hugoton Basin Properties in Kansas	BP America Production Co.	1,200
11/4/2011	Buyer	Plains Exploration & Production Co., Granite Wash Property	Plains Exploration & Production Co.	629
5/9/2011	Buyer	Oil and Natural Gas Properties In Ochiltree, Lipscomb Counties and Ellis County	Panther Energy Co., LLC; Red Willow Mid-Continent LLC	222
4/28/2011	Buyer	Certain Oil And Natural Gas Properties in North Dakota		-

This is partial list of the Financial Investors showing recent activity in acquiring E&P assets. For a more complete list, see the Appendix. Source: The Find Buyer Tool on S&P Capital IQ.

Conclusion

According to this research, it appears that M&A activity in the energy sector, dominated by activity in North America, which will be concentrated in the upstream and midstream subsectors, would continue for the rest of the year. However, buyers are starting to exercise caution as multiples are starting to climb and signs of a seller's market are apparently emerging. Many players may be bidding for the same liquids-rich assets, which will push up valuations as long as oil prices remain high. The research also seems to indicate that activity in EMEA and Asia may rise, as companies try to find more unconventional reserves through the gain of exploration and production know-how either through their acquisitions or joint-ventures with IOCs and independents. Success through M&A for energy companies could depend on identifying a strong pipeline of potential deals and deal participants in this competitive environment.

Appendix

Table 4A**Upstream M&A In North America, 2011**

Transactions announced date	Target/issuer	Industry (target/issuer)	Total transaction value (mil. \$)	Buyers/investors	Sellers
10/16/2011	El Paso Corp.	Oil and gas storage and transportation	35,658.22	Kinder Morgan Inc.	Icahn Capital LP
7/14/2011	Petrohawk Energy Corp.	Oil and gas exploration and production	15,753.62	BHP Billiton Ltd.	Caxton Associates LP; CastleRock Management LLC; GLG Partners Inc.; Bass Companies; Ridgecrest Investment Management LLC; GLG North American Opportunity Fund; GLG Investments PLC - GLG North American Equity; Guggenheim Advisors; CastleRock Partners L.P.; Global Capital Ltd.; Chestnut Ridge Capital LLC
6/15/2011	Southern Union Co.	Oil and gas storage and transportation	9,376.98	Energy Transfer Equity L.P.	BlackRock Inc.; Baron Capital Group Inc; Kensico Capital Management Corp.
2/6/2011	Pride International Inc.	Oil and gas drilling	9,219.45	EnSCO PLC	-
1/28/2011	Alpha Appalachia Holdings Inc.	Coal	8,423.22	Alpha Natural Resources Inc.	-
11/23/2011	Samson Investment Co.	Oil and gas exploration and production	7,200.00	Kohlberg Kravis Roberts & Co.; NGP Energy Capital Management; Itochu Corp.; Crestview Partners L.P.	-

Table 4A

Upstream M&A In North America, 2011 (cont.)					
10/17/2011	Brigham Exploration Co.	Oil and gas exploration and production	5,004.59	Statoil ASA	-
2/21/2011	Fayetteville Shale Assets	Oil and gas exploration and production	4,819.00	BHP Billiton Petroleum (Americas) Inc.	Chesapeake Exploration LLC; Larchmont Resources L.L.C.; Chesapeake Investments L.P.
5/31/2011	Hilcorp Resources Holdings LP	Oil and gas exploration and production	3,500.00	Marathon Oil Corp.	Kohlberg Kravis Roberts & Co.; Hilcorp Energy Co.
8/17/2011	CNX Gas Company LLC, 663,350 Marcellus Shale Acres And Marcellus Gathering Assets	Oil and gas exploration and production	3,415.89	Noble Energy Inc.	CNX Gas Company LLC
5/2/2011	International Coal Group Inc.	Coal	3,375.17	Arch Coal Inc.	GAMCO Investors Inc.; BlackRock Inc.; TIG Specialty Insurance Solutions; WL Ross and Co. LLC; Gabelli Securities Inc.; Gabelli Funds LLC; Odyssey America Reinsurance Corp.; GAMCO Asset Management Inc.; GGCP Inc.; Clearwater Insurance Co.; Wentworth Insurance Company Ltd; Gabelli Foundation Inc.; nSpire Re Ltd., Asset Management Arm; Fairfax Financial Holdings Ltd., Investment Arm; Mjg Associates Inc; MJG-IV Ltd. Partnership
10/9/2011	Complete Production Services Inc.	Oil and Gas equipment and services	3,283.66	Superior Energy Services Inc.	-
2/21/2011	Frontier Oil Corp.	Oil and gas refining and marketing	3,240.95	HollyFrontier Corp.	-
2/13/2011	Wood Group ESP Inc. and Wood Group Pressure Control, LP and Wood Group Logging Services, Inc.	Oil and Gas equipment and services	2,850.00	GE Energy Manufacturing Inc.	John Wood Group PLC
10/9/2011	Sinopec Daylight Energy Ltd.	Oil and gas exploration and production	2,783.11	Sinopec International Petroleum Exploration & Production Corp.	Fidelity Management & Research Co.; Valiant Trust Co., Investment Arm
11/3/2011	650,000 Net Acres in Utica Shale Area	Oil and gas exploration and production	2,440.00	Total E&P USA Inc.	Chesapeake Energy Corp.; EnerVest Ltd.
7/19/2011	OPTI Canada Inc.	Oil and gas exploration and production	2,331.55	CNOOC Ltd.	-
7/4/2011	Citrus Corp.	Oil and gas storage and transportation	2,000.00	Energy Transfer Partners LP	Energy Transfer Equity L.P.
12/1/2011	BP Canada Energy Co., Canadian natural gas liquids (NGL) business	Oil and gas refining and marketing	1,670.00	Plains Midstream Canada ULC	BP Canada Energy Co.

Source: S&P Capital IQ.

Table 10A

EOG Resources Representative M&A Activity Since 2009					
Announced date	Role	Target	Buyer/investors	Sellers	Size (mil. \$)
6/3/2011	Seller	EOG Resources Inc., Condensate Recovery Plant and the Prairie Rose Pipeline	Aux Sable Liquid Products LP	EOG Resources Inc.	185.00
3/18/2011	Seller - parent	Kitimat LNG Export Terminal, on West Coast of Central British Columbia	Encana Corp.	Apache Canada Ltd.; EOG Resources Canada Co.	-
3/4/2011	Seller	EOG Resources Inc., 7,700 Undeveloped Net Acres in McKenzie County, North Dakota	Triangle Petroleum Corp.	EOG Resources Inc.	34.10
2/7/2011	Seller - parent	Pacific Trail Pipelines Limited Partnership	Apache Canada Ltd.; EOG Resources Canada Inc.	Pacific Northern Gas Ltd.	51.05
1/10/2011	Seller	EOG Resources Inc., Oil and Gas Properties in the Covington Township Area of Tioga County	Seneca Resources Corp.	EOG Resources Inc.	24.10
6/9/2010	Seller	Network International Inc.	Liquidity Services Inc.	Chevron Technology Ventures L.L.C.; Convergent Investors; EOG Resources Inc.; Goldman Sachs Group, Merchant Banking Division; Morgan Stanley Private Equity; Sciens Capital Management LLC; Warburg Pincus LLC Seller Funds: Warburg Pincus Ventures L.P.	15.00
5/18/2010	Seller - parent	Galveston LNG Inc.	EOG Resources Canada Inc.	Denham Capital Management LP	-
5/4/2010	Buyer	7,500 Net Acres Within The Haynesville and Bossier Shale formations	EOG Resources Inc.		18.00

Source: S&P Capital IQ.

Table 11A

Chesapeake Representative M&A Activity Since 2011						
Announced date	Transaction type	Role	Target	Buyer/investors	Sellers	Size (mil. \$)
2/9/2012	M&A	Seller - parent	Eagle Well Services Inc.	Steel Excel Inc.	Bronco Drilling Co. Inc.	-
12/28/2011	M&A	Seller - parent	Appalachia Midstream Services L.L.C.	Chesapeake MLP Operating L.L.C.	Chesapeake Midstream Operating L.L.C.	862.71
11/3/2011	M&A	Seller	650,000 Net Acres in Utica Shale Area	Total E&P USA Inc.	Chesapeake Energy Corp.; EnerVest Ltd.	2,440.00
11/1/2011	Private placement	Target - parent	CHK Utica L.L.C.	EIG Global Energy Partners; GSO Capital Partners LP; Magnetar Capital LLC		1,250.00
8/27/2011	M&A	Buyer	Central Park One and Central Park Two in Oklahoma City	Chesapeake Energy Corp.	Rosemont Realty LLC	29.74
7/29/2011	M&A	Buyer	1.2 Million Acres in Ohio Shale Prospect	Chesapeake Energy Corp.		-
7/11/2011	Private placement	Buyer - parent	Sundrop Fuels Inc.	Chesapeake Natural Gas Ventures Corp.; Oak Investment Partners		175.00
7/11/2011	Private placement	Buyer - parent	Clean Energy Fuels Corp.	Chesapeake Natural Gas Ventures Corp.; Oak Investment Partners		150.00

Table 11A

Chesapeake Representative M&A Activity Since 2011 (cont.)						
4/19/2011	M&A	Buyer	Frac Tech Holdings LLC (nka:Frac Tech International LLC)	Chesapeake Energy Corp.; RRJ Capital; Temasek Holdings (Pte) Ltd.		-
4/15/2011	M&A	Buyer	Bronco Drilling Co. Inc.	Chesapeake Energy Corp.	Carso Infraestructura y Construcción S.A.B. De C.V. (BMV:CICSA B-1); Inmobiliaria Carso, S.A. de C.V.; Third Avenue Management LLC; Wexford Capital LLC, Private Equity Arm	342.81
2/21/2011	M&A	Seller - parent	Fayetteville Shale Assets	BHP Billiton Petroleum Inc.	Chesapeake Exploration, LLC; Chesapeake Investments L.P.; Larchmont Resources L.L.C.	4,819.00
1/30/2011	M&A	Seller	Chesapeake Energy Corp., 800,000 Net Oil and Natural Gas Leasehold Acres in Denver-Julesburg	CNOOC International Ltd.	Chesapeake Energy Corp.; EnerVest Ltd.	570.00

Source: S&P Capital IQ.

Table 12A

Financial Investors With Recent Activity In Acquiring E&P Assets		
Company	Direct investment score	Related current investments
Kayne Anderson Capital Advisors L.P.	89	Momentum Oil and Gas LLC; Newton Energy Partners LLC; Raptor Petroleum II LLC; Treadstone Energy Partners LLC
EnCap Investments L.P.	88	FireWheel Energy LLC; Forge Energy LLC; US Infrastructure Holdings LLC
Iroquois Capital LP	88	Gale Force Petroleum Inc.; Gravis Oil Corp.; Tri-Valley Corp.
KERN Partners	88	Black Swan Energy Ltd.; Ember Resources Inc.; Osum Oil Sands Corp.
CPP Investment Board	87	Black Swan Energy Ltd.; Teine Energy Ltd.
Humboldt Capital Corp.	87	Diaz Resources Ltd.; Paris Energy Inc.
Pinetree Capital Ltd.	87	Vanoil Energy Ltd.; Zone Resources Inc.
Warburg Pincus LLC	87	Black Swan Energy Ltd.; Osum Oil Sands Corp.
Yorktown Partners L.L.C.	87	Carbon Natural Gas Company; Terrace Energy LLC
Yorkville Advisors LLC	87	American Power Corp. (Pending Acquisition/Investment); Carbonics Capital Corp.

Source: S&P Capital IQ.

Table 13A

Strategic Investors With Recent Activity In Acquiring E&P Assets		
Company	Direct investment score	Related investments
Linn Energy LLC	92	BP America Production Co., Hugoton Basin Properties in Kansas (Pending Acquisition/Investment); Certain Oil And Natural Gas Properties in North Dakota (Merged Entity); Concho Resources Inc., Certain Oil And Natural Gas Properties in The Bakken Play (Merged Entity); Oil and Natural Gas Properties in North Dakota (Pending Acquisition/Investment); Oil and Natural Gas Properties in Permian Basin in Texas (Merged Entity); Plains Exploration & Production Co., Granite Wash Property (Merged Entity); Properties in East Texas (Pending Acquisition/Investment)
Mountainview Energy Ltd.	91	1,680 acres in Montana State Lands (Merged Entity); 4,566 acres in the South Alberta Bakken Play (Merged Entity); 67,000 Acres in the Medicine Lake Prospect (Pending Acquisition/Investment); SM Energy Co., Wolter 13-23H Well; The Snoose Coulee Field; Working Interest in Certain Lands in the Williston Basin in Montana
Crescent Point Energy Corp.	90	750 Boe/d of Production and 78 Net Sections of Lower-Risk Land in North Dakota (Merged Entity); Manitoba Light Oil Assets (Merged Entity); PetroBakken Energy Ltd., Non-Core Southeast Saskatchewan Assets (Pending Acquisition/Investment); Reliable Energy Ltd.; Wild Stream Exploration Inc. (Current Subsidiary/Operating Unit)

Table 13A

Strategic Investors With Recent Activity In Acquiring E&P Assets (cont.)		
Marathon Oil Corp.	90	19,000 Net Acres and Gas Gathering System in Eagle Ford Shale Area (Merged Entity); 29,000 acres in Eagle Ford Shale in South Texas (Merged Entity); 30,000 Additional Acres (Merged Entity); 6,800 Net Acres in Eagle Ford Shale Area (Merged Entity); Hilcorp Resources Holdings LP (Current Subsidiary/Operating Unit)
Aurora Energy Partners	89	Jones County Play ; North Killarney Oil Prospect; V-F Petroleum Uno Mas No. 1 in Lea County, New Mexico; Working interest in 3,186 Acre position in the Wolfberry Resource Trend
Grand Gulf Energy Ltd.	89	Austin Bayou Updip Production Project; Grizzly Prospect; Vermillion River Prospect; West Klondike, Louisiana Prospect (Pending Acquisition/Investment)
Hillcrest Resources Ltd.	89	Bakken Oil Holdings LLC, Certain Oil and Gas Properties in Teton and Pondera Counties, Montana (Merged Entity); Certain Oil and Gas Properties in Pondera County, Montana (Pending Acquisition/Investment); Longshot Oil, LLC, Certain Oil and Gas Properties in Teton County in Montana (Merged Entity); Pedregosa Basin Leases and Project in Cochise county, Arizona (Current Subsidiary/Operating Unit)
Nostra Terra Oil & Gas Co. PLC	89	Bale Creek Prospect, Northern Oklahoma (Pending Acquisition/Investment); Bloom property (Merged Entity); Crown Energy Co., Warrior Prospect Located in Oklahoma (Pending Acquisition/Investment); Plainsmen Partners LLC, Verde Prospect in South-Eastern Colorado (Pending Acquisition/Investment)
Bill Barrett Corp.	88	East Bluebell (Current Subsidiary/Operating Unit); Recovery Energy Inc., All Oil and Gas Leases in the Grover Field in Weld County, Colorado (Pending Acquisition/Investment); Texas American Resources Co., 28,000 Acres of Mineral Leasehold in Denver-Julesburg Basin (Merged Entity)
ConocoPhillips	88	21,048 acres of land at Old Lowry Bombing Range in Arapahoe County (Pending Acquisition/Investment); Lario Oil & Gas Co., Niobrara Acreage (Pending Acquisition/Investment); Two Norwegian Blocks in the Barents Sea and 33,000 Net Acres in Wolfcamp Shale (Merged Entity)

Source: S&P Capital IQ.

Table 14A

Linn Energy LLC Representative M&A Activity Since 2009				
Announced date	Role	Target	Sellers	Size (mil. \$)
3/9/2012	Buyer	Properties in East Texas		175.00
2/27/2012	Buyer	BP America Production Co., Hugoton Basin Properties in Kansas	BP America Production Co.	1,200.00
11/4/2011	Buyer	Plains Exploration & Production Co., Granite Wash Property	Plains Exploration & Production Co.	629.00
5/9/2011	Buyer	Oil and Natural Gas Properties In Ochiltree, Lipscomb Counties and Ellis County	Panther Energy Co. LLC; Red Willow Mid-Continent LLC	222.00
4/28/2011	Buyer	Certain Oil And Natural Gas Properties in North Dakota		-
4/28/2011	Buyer	Oil and Natural Gas Properties in North Dakota		-
2/28/2011	Buyer	SandRidge Exploration and Production, Oil and Natural Gas Properties in Permian Basin in New Mexico	SandRidge Exploration and Production LLC	200.00
2/28/2011	Buyer	Cog Operating LLC, North Dakota Bakken Assets	Cog Operating LLC	196.00
2/28/2011	Buyer	Concho Resources Inc., Certain Oil And Natural Gas Properties in The Bakken Play	Concho Resources Inc.	195.90
2/28/2011	Buyer	Oil and Natural Gas Properties in Permian Basin in Texas		38.00
9/7/2010	Buyer	Certain Oil and Natural Gas Properties in Wolfberry of Permian Basin	CrownRock LP; Patriot Resources Partners LLC	260.00
9/7/2010	Buyer	Oil and Natural Gas Properties in Wolfberry Trend of Permian Basin	Element Petroleum LP	118.00
7/1/2010	Buyer	Oil and Natural Gas Properties in the Permian Basin		90.00
3/29/2010	Buyer	Henry Savings LP and Henry Savings Management LLC		307.80
3/22/2010	Buyer	HighMount Exploration & Production Michigan LLC	HighMount Exploration & Production LLC	327.00
12/1/2009	Buyer	Oil and Natural Gas Properties in the Permian and Anadarko Basins		154.50
8/6/2009	Buyer	Forest Oil Permian Corp., Oil and Natural Gas Properties in the Permian Basin in West Texas	Forest Oil Permian Corp.	22.60
8/5/2009	Buyer	Forest Oil Permian Corp., Oil and Natural Gas Properties in the Permian Basin in Texas and New Mexico	Forest Oil Permian Corp.	95.00

Table 14A**Linn Energy LLC Representative M&A Activity Since 2009 (cont.)**

Source: S&P Capital IQ.

Notes

{1} Paul Harvey, "Credit FAQ: Will M&A In The Oil And Gas Sector Stay Strong In 2012?," available Feb. 13, 2012, on the Global Credit Portal.

{2} Michael Kay, "Chesapeake Energy Corp." Stock Report, available April 4, 2012, on the S&P Capital IQ platform.

{3} Michael Kay, "Trending Now: Shale Gas And The Switch To Liquids Rich," at "Exploring Paradigm Shifts In The Energy Sector," Feb. 9, 2012, Houston, TX.

Copyright © 2012 by Standard & Poor's Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved. This report was prepared by the S&P Capital IQ Solutions Architect group. This group is analytically and editorially separate and independent from all other analytical groups within Standard & Poor's, including Standard & Poor's Ratings Services.

Copyright © 2012 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software, or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced, or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees, or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness, or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment, and experience of the user, its management, employees, advisors, and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees. This report was prepared by the S&P Capital IQ Solutions Architects. This group is analytically and editorially independent from any other analytical group at S&P.