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2022 oil and gas M&A outlook

Rewriting the playbook on O&G deal-making

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Methodology

Deloitte's 2022 oil and gas M&A outlook leverages Enverus's global M&A database, updated on January 10, 2022. The data includes all 2021 reported upstream, oilfield services (OFS), midstream, and downstream transactions valued at more than $10 million, excluding those between related parties and government lease sales and licensing.

Executive summary

The events of early 2022 have significantly affected the oil and gas industry as Russia's military invasion in Ukraine has made an already tight oil market even tighter. Despite record cash flows, the combination of geopolitical uncertainty, trade controls, inflationary pressures, and focus on shareholder returns is expected to make O&G companies highly cautious in their spending including for M&A in 2022. But even beyond the current state of global economics and energy markets, our analysis of 2021 deal making shows fundamental changes to the M&A strategy of O&G companies, which we expect to see play out in 2022.

O&G companies are rewriting the M&A playbook, as their aggressive tactical or cyclical acquisition strategy of the past has given way to restrained, strategic, and environment-focused buying in 2021. Despite a 75% rebound in oil prices and record cash flows, for example, global O&G M&A deal activity increased by only 18% and capex grew by only 17% in 2021[1].

The first half of 2021 saw the lowest level of O&G deal activity in the last 10 years, but it somewhat rebounded in the second half. Overall, global O&G M&A deal value in 2021 rose by a modest 18% to $269 billion, compared to 2020, with recoveries in upstream and oilfield services offsetting weakness in midstream and downstream, as follows.[2]

- Upstream deal value rose 70% to $138 billion, led by the majors shedding fossil fuel assets.
- Oilfield service value grew 4.5 times to $9.5 billion, driven by an interest in offshore drilling.
- Midstream value fell by 12% to $91 billion, with strong interest from private equity (PE) firms.
- Downstream activity fell by 27% to $30 billion, led by a shift in value toward upstream.

A deeper analysis of deals across the four O&G sectors highlight five themes, which also indicate the pace and progress of changes in the industry:

- Energy transition has altered upstream deal making, with the growing role of lean operators.
- ESG consideration in M&A is emerging, and its impact on buyers' shareholder returns is evolving.
- Joint ventures (JVs) are being prioritized to build a differentiated position in carbon-abatement solutions.
- Energy information services are enabling the commercialization of new offerings and technologies.
- Private equity (PE) interest is gradually steering towards building low-carbon infrastructure.

While projected record cash flows of O&G companies at current prices bode very well for O&G M&A activity, geopolitical uncertainty resulting from the Russian military invasion in Ukraine and Omicron-induced demand and investment declines—including supply-chain disruptions and inflation—may impede O&G M&A momentum in 2022. However, portfolio-rebalancing amid the evolving geopolitical landscape and ongoing opportunities to integrate hydrocarbon and green energy assets could provide some support to the M&A activity in 2022.

O&G M&A starting to decouple from oil prices

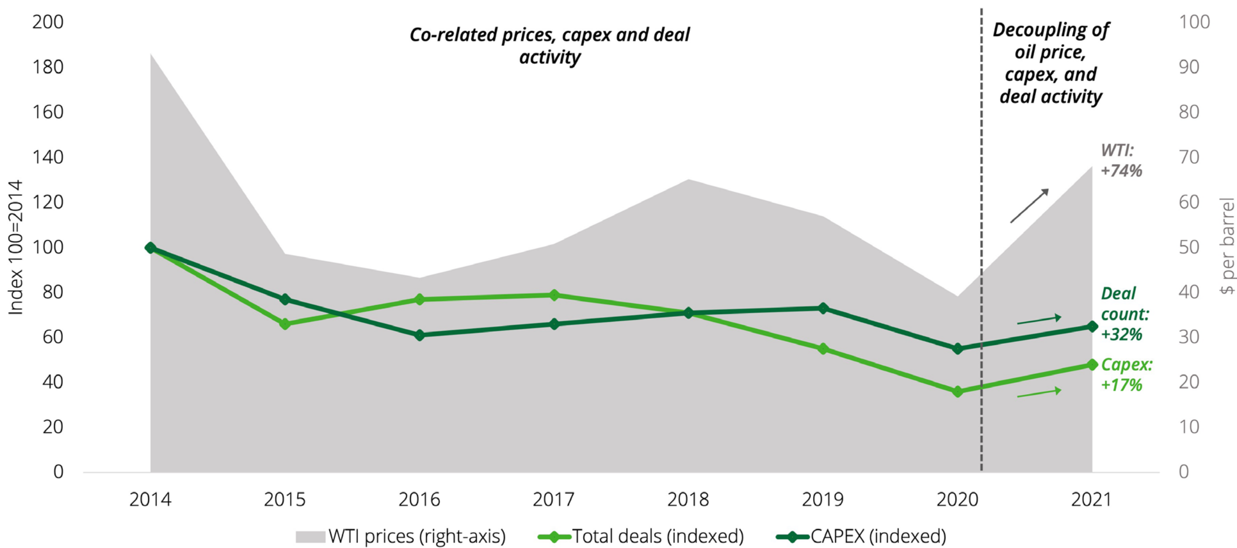
Traditionally, organic and inorganic investments in the O&G industry follow oil prices. Strong prices led to record capex and deal activity over 2012–2014, with some opportunistic buying between 2016–2017. The same trend was observed through the oil price crash of 2020, which cratered industry activity (figure 1).

However, both O&G capex and M&A decoupled from oil prices in 2021. Despite a 75% rebound in prices, deal activity increased by only 32%, and capex grew by only 17%.

- Rewarding shareholders through increased payouts and divestment of less-economical or carbon-heavy hydrocarbon reserves drove O&G stakeholder expectations in 2021.[3]
- Reaching a reserve replacement rate of 100% was no longer a key expectation.
- Many stakeholders were more interested in O&G companies reducing their environmental footprint to become lean and efficient hydrocarbon producers.[4]

What does this decoupling mean? There is a growing consensus that the long-term demand outlook for hydrocarbons is bearish. However, hydrocarbon assets that help buyers upgrade their portfolios, build a low-cost niche position, diversify commodity exposure, or reduce their carbon footprint could be highly profitable in high oil price and energy transition scenarios. Key deal-making drivers in O&G are changing—cyclical buying or selling will likely make way for strategic, goal-oriented asset exchange.

Figure 1. Oil price, capex, and global O&G deal activity decoupled in 2021

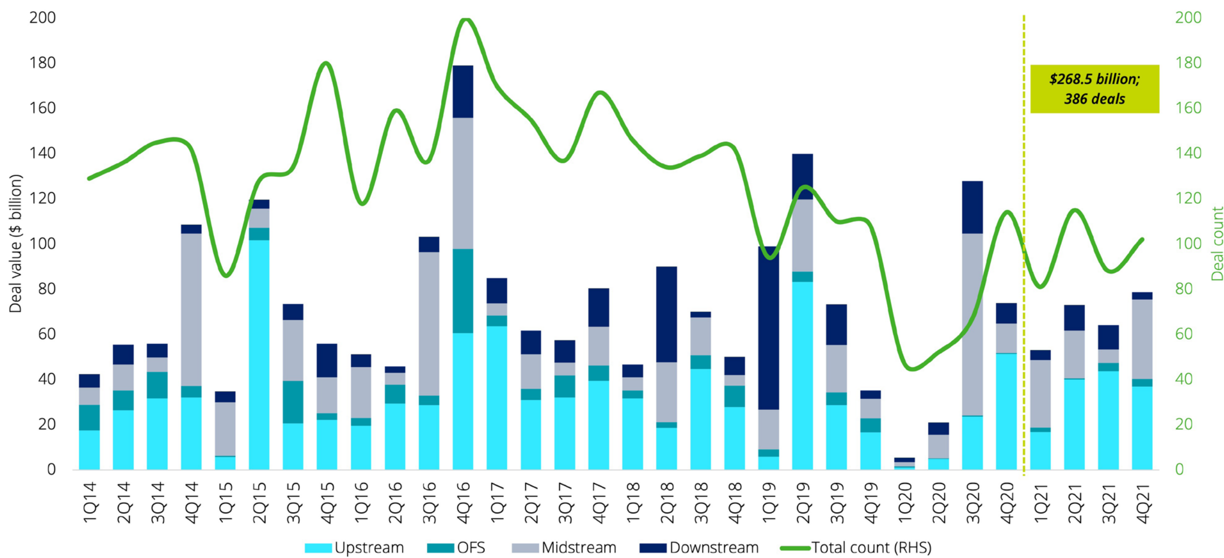


Sources: Deloitte analysis based on the data accessed from the Enverus, US Energy Information Administration, and S&P Capital IQ databases.

Upstream and OFS lead the overall O&G M&A recovery

Global O&G M&A deal value grew by a modest 18% YoY to reach $268.5 billion in 2021, despite the low base of 2020 and oil prices nearly doubling over the year[5]. Deal volumes were relatively better—386 deals, a growth of 31%—but a lower increase in deal value suggests that most incremental buying was small-sized in 2021.[6] In fact, there was only one deal worth more than $15 billion in Saudi Arabia.[7] Despite global O&G companies' free cash flows reaching a record $300 billion (about seven times that of 2014), their hydrocarbon spending and buying remained disciplined over 2021.[8]

Figure 2. O&G M&A deal value and count by sectors (2014-2021)



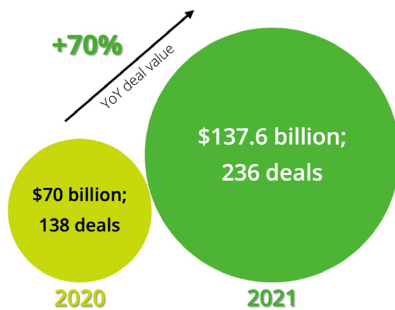
*Note: *Data updated till December 2021.*

Source: Deloitte analysis based on data accessed from the Enverus database.

Among O&G sectors, upstream has traditionally dominated the M&A activity. While this still holds today—with its deal count and deal value shares of 61% and 51%, respectively, in 2021—deal activity in the relatively stable midstream and downstream sectors has maintained momentum.[9] Six out of the top 10 deals of 2020 and 2021 were in the midstream and downstream sectors. However, the oilfield services (OFS) sector's activity dried up, with its deal value share falling to less than 5% over the past few years.[10] Detailed information about each sector is provided below:

1. Upstream sector: Strong recovery but the activity remains at a 15-year low

The global upstream M&A deal count remained at a 15-year low (excluding the abnormal year 2020) or at a pre-shale 2005 level, although an improved macro and oil price sentiment brought back a few opportunistic buyers in 2021.[11]



- Global upstream M&A deal value rose by 70% YoY to $137.6 billion in 2021 on a lower base of 2020.[12]
- Measured upstream activity results from capital discipline, increasing focus on green energy, and rising productivity gains. For example, US O&G production in 2021 was only 11% below pre–COVID-19 levels, while the rig count was 28% lower.[13]

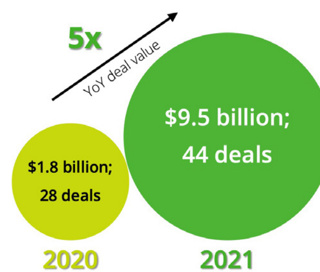
A lack of clear consensus on buying is reflected in the top upstream deals of 2021, in which the deal-making rationale was divergent across deals.

- Global miner BHP Group, for example, exited from fossil fuels by selling its $14.4 billion valued O&G business.[14]
- Aker BP acquired Lundin Energy for $13.8 billion to unlock synergies in the North Sea while lowering its emissions profile.[15]
- ConocoPhillips strengthened its position in Delware basin by buying Shell assets worth $9.5 billion.[16]
- Traditionally gas-focused Cabot's $9.2 billion acquisition of oil-heavy Cimarex, on the other hand, appeared to be a deal focused on commodity, geography, and asset diversification for the combined entity.[17]

2. Oilfield service sector: Focusing on scale and environmental solutions

Global OFS deal value rose by about five times to $9.5 billion in 2021, but overall remained at a five-year low (excluding 2020). Deal-making was thin and concentrated, with the top three deals constituting 60% of deal value and the average ticket size of the rest below $100 million.[18]

Growing production and cost efficiencies in shales have reduced the demand for shale services, which was the key driver for OFS sector growth over 2014–2019.



- New-well oil production per rig in US shales, for example, has increased from 679 barrels per day (bpd) in late 2018 to 1,140 bpd by the end of 2021.
- Reduced demand for drilling and completion services revenues alongside declining service fees charged to operators—especially in the US shale market—is largely why the segment continues to report losses (the global OFS industry reported a loss of $7.5 billion in 2021).[19]

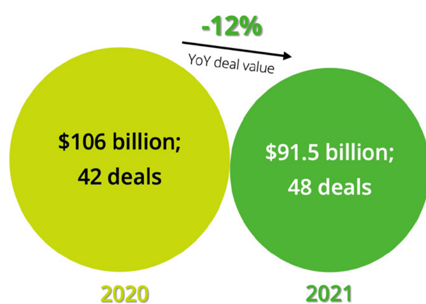
  That's likely why none of the largest deals in 2021 were in the US shale market, with one deal even eyeing opportunities in offshore E&P. Noble Corp's proposed merger with Maersk Drilling to create the world's largest offshore rig company was unexpected considering the deal marks Noble's second merger since emerging from Chapter 11 bankruptcy in early 2021. Meanwhile, Secure Energy and Tervita Corp. merged to create a more robust infrastructure and environmental solutions business.[20]

3. Midstream sector: Positioning for new energy technologies

Due to its steady take-or-pay capacity-based model, global midstream deal value remained largely stable—falling marginally by 12% to $91.5 billion.[21]

Additionally, this remains the only O&G segment where deal-making remains stable across asset types, deal sizes, and asset geographies. The segment recorded 20 deals worth above $1 billion each, with solid interest from PE and infrastructure funds, midstream majors, utilities, sovereign wealth funds, and integrated O&G companies in countries like the United States, Saudi Arabia, Canada, Brazil, and Australia.[22] In two separate deals, PE firms led by BlackRock Inc. and Hassana Investment Company acquired stakes worth $27.9 billion in the newly formed entity Aramco Gas Pipelines Company of Saudi Arabian Oil Company.[23]

Deal-making in the segment is shifting away from exchanging gathering and distribution networks for shales to acquiring clean-fuel LNG facilities, building an integrated midstream network, and developing underground storage assets for carbon, capture, and underground storage (CCUS).

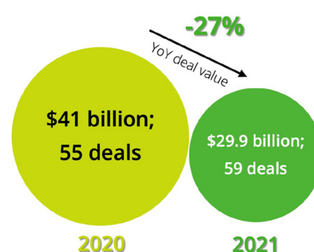


- For instance, TC Energy Corporation partnered with Pembina Pipeline Corporation to jointly develop the Alberta Carbon Grid, which is expected to reduce CO2 emissions by 20 MMTPA.[24]
- With the US administration extending 45Q carbon tax credits and making them more accessible to developers, US midstream companies will likely find new opportunities in CCUS.
- Additionally, infrastructure funds, a subclass of private equity, are demonstrating their interest in midstream assets by partnering with other stakeholders, such as governments and municipalities, to invest in building infrastructure for new low-carbon energies.

4. Downstream sector: Getting closer to the consumer

The global downstream deal count rose by 4 to 59 deals while the value dropped by 27% to $30 billion in 2021.[25] Typically, there is strong deal activity when oil prices are falling (2015–2019), while the action drops when oil prices are recovering (2021). This is because the value shifts from upstream to downstream in a falling-oil-price scenario and vice versa.

Downstream deal-making is also shifting from the conventional refinery (distillation units) and distribution assets (lubricants, tankers, etc.) to asset types that are closer to the consumer such as storage terminals, shipping, private jet management services, and convenience-store service stations.



- In fact, the largest downstream deal of 2021 involved the acquisition of a private aviation services network, as fixed-base operators enjoying strong investor interest spurred by the rebounding private jet traffic in the United States.[26]
- Although still marginal, downstream assets, including renewable fuels, also seem to be gaining buyers' interest. HollyFrontier's $1.8 billion acquisition of Sinclair Oil includes a 10,000 bbl/d renewable diesel unit at the Sinclair, WY, refinery.[27]
- Going forward, downstream operators would likely continue focusing on boosting margins via cost-cutting and efficiency gains, while simultaneously looking to transition towards decarbonized "refineries of the future" through means such as:
  - Converting to renewable fuels production fed by organic feedstocks
  - Adopting technologies to enable fuel switching to clean hydrogen
  - Further integrating refineries down through the petrochemical value chain
  - Implementing CCUS

Five emerging themes shaping the O&G M&A landscape

According to our analysis, five themes are expected to mark the pace and progress of upcoming changes in the industry.

- Energy transition altering the upstream deal playbook
- Broadening consideration for ESG in deal-making
- Expanding into new energy businesses
- Changing role of energy information services
- Shifting private equity and infrastructure fund interest in O&G

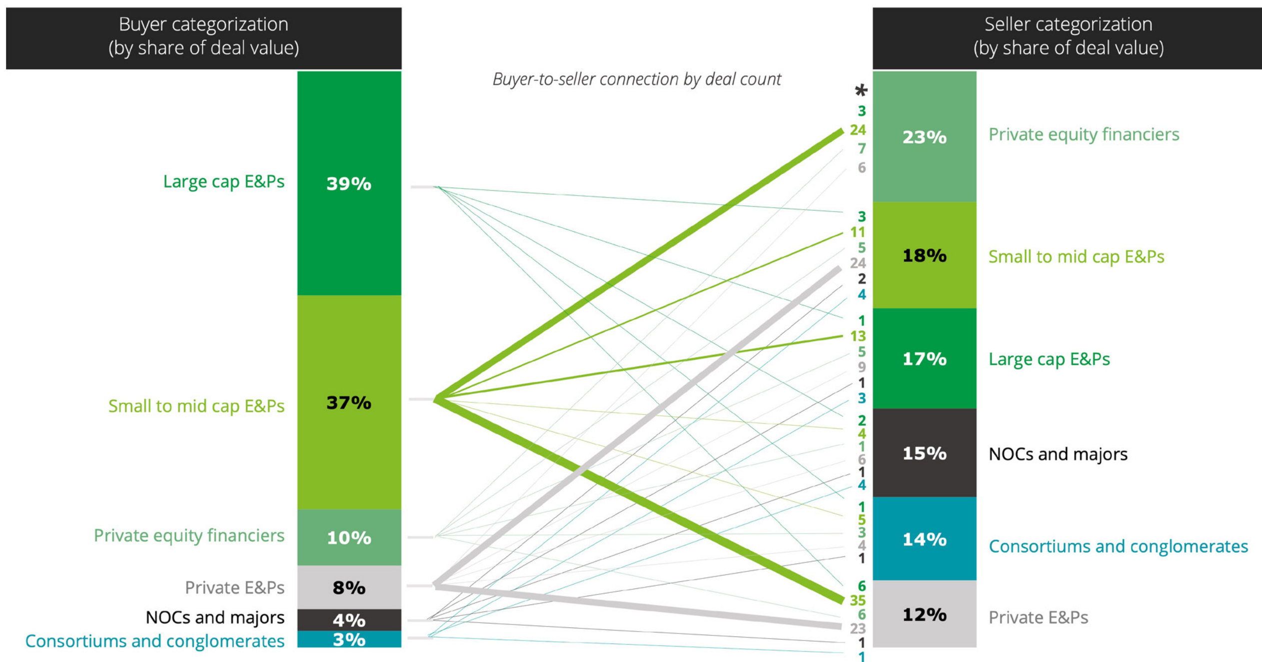
1. Energy transition altering the upstream deal playbook

A combination of high oil prices and accelerating energy transition has reduced the valuation mismatch between potential buyers and sellers, making both comfortable to pursue M&A opportunities. Additionally, the combination is allowing buyers to balance economics and the environment by acquiring higher-margin assets while driving increased free cash flow generation and ESG initiatives. For example, Aker BP's $14 billion proposed acquisition of the E&P business of Lundin Energy is characterized by Aker as creating the E&P company of the future, aiming to offer among the highest free cash flow, lowest cost, lowest CO2 emissions, and the most attractive growth pipeline.[28]

The energy transition has altered the upstream deal playbook, with a significant change in the profile of most buyers and sellers.

- Many conglomerates and supermajors are reevaluating their portfolios to identify and shed non-core assets while many pure-play E&Ps (encompassing private, small-to-mid caps, and large E&Ps) are solidifying their niche positions through acquisitions. In fact, about 85% of upstream buying in 2021 was done by pure-play E&Ps (graph 3).
- Although this shift in the ownership from large to relatively smaller O&G companies may seem contrary to the core principles of consolidation (i.e., big acquires small), the changes are driving consolidation within specific basins as the industry shifts toward as lean, focused, and more efficient operating models.

Figure 3. Upstream deals split by buyers and sellers (2021)



Notes.

** Denotes the deal count for each combination of buyer-seller.*

— Thickness of lines indicates higher number of deals between the combination of buyer and seller categories.

Source: Deloitte analysis based on data accessed from the Enverus database.

When prices were low, acquirers focused on production and near-term assets under development. Though deals are back, buyers aren't paying premiums for assets that carry development or energy transition risk.

- In 2021, about 65% of upstream deals by value were for producing resources and resources under development.
- ConocoPhillips, for example, acquired oil-heavy production resources and acreage in the Delaware basin from Shell at an estimated price of less than $10/boe, compared to similar deals between 2014 and 2016 with price ranging higher between prices $9–12/boe.[29] Shell's acreage is an established asset in the Delaware Basin, with a reasonably mature base production and low greenhouse gas intensity.[30]
- Similarly, the prices per boe paid by buyers for discovered-but-undeveloped and undiscovered resources were 25% to 60%, respectively, lower than that paid in 2014.

An increasing number of large O&G companies are likely to divest higher-carbon assets and consolidate their oil and gas positions to decarbonize operations and benefit from valuation upsides presented by higher oil prices. Thus, regional or low-cost hydrocarbon producers will likely closely track divestment targets of super majors and conglomerates.

Outlook for 2022

Small-sized deals to add up to considerable M&A value: Small-to-medium-sized O&G companies, including private ones, which are niche and lean basin players, could be a critical driver of O&G deal activity via in-basin consolidation in late 2022 after geopolitical tensions and volatility in oil prices have subsided. Producing assets of large O&G companies that remain unconnected to their infrastructure and promising shale acreage of international O&G companies looking to exit the shale business could continue to grab the attention of strong and lean buyers. Buyers focused on ESG are expected to continue to access public market capital, while others may privatize to capitalize on lower regulatory and administrative costs.

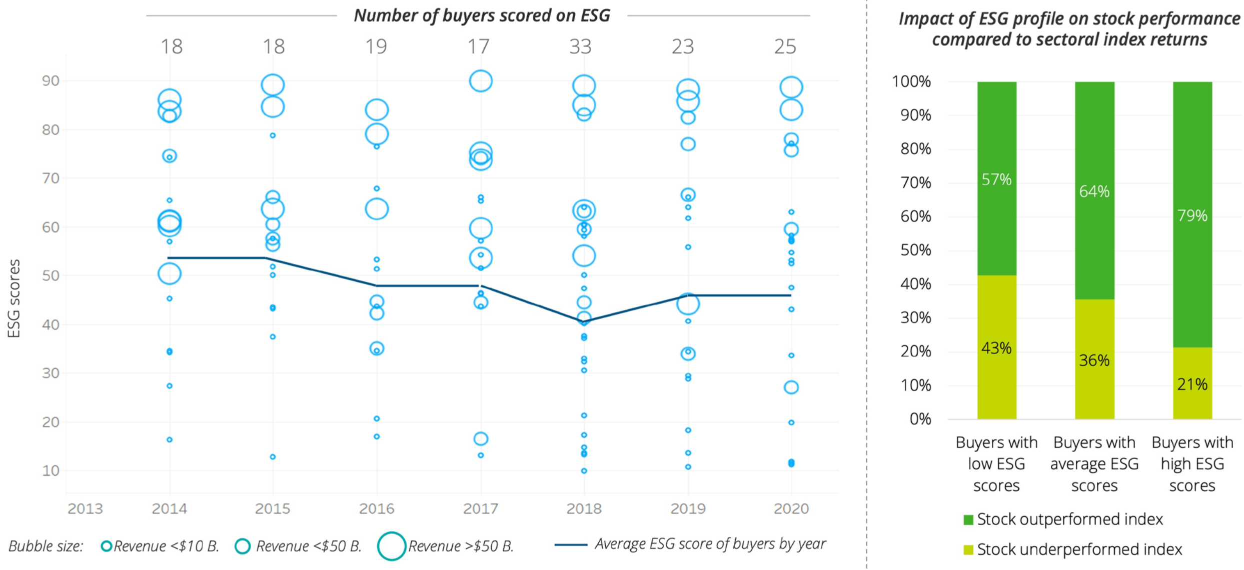
2. Broadening consideration for ESG in deal-making

ESG-related investments of $1.7 trillion account for about 10% of worldwide fund assets across industries.[31] But only 10% of O&G deals in 2021 cited ESG as their key deal rationale or openly communicated their ESG consideration in deals to stakeholders. Among the very few, Bonanza Creek and Extraction Oil & Gas, for example, merged to form Civitas Resources Inc, Colorado's first net-zero oil and gas producer.[32] Why this low consideration of ESG in M&A?

- **Impact of small-sized or private E&Ps as buyers:** Large O&G sellers are looking for a limited pool of buyers who will develop O&G assets responsibly. Consequently, upstream M&A activity is currently being driven more by small-sized or private E&Ps who prioritize financial metrics and may have a relatively weaker ESG profile. That may be why the average ESG score of upstream buyers has been flat to trending down since 2014 (graph 4).
- **Challenges associated with ESG metrics:** Lack of uniform ESG benchmarks and challenges in integrating ESG due diligence into valuation are limiting companies from unlocking M&A value with ESG. According to a recent Deloitte survey, 59% of surveyed energy and manufacturing executives highlighted the development of ESG benchmarks, guidelines, and metrics for reporting as their biggest challenge[33].

Eventually, these challenges are expected to be addressed as regulations and guidelines develop, and thus, ESG progress and its impact could be more apparent. But currently, our analysis reveals that ESG's impact on buyers' shareholder returns is largely positive, although not wholly conclusive. For example, 79% of buyers with relatively strong ESG profiles outperformed their sectoral indices. On the other hand, 57% of buyers with relatively weak ESG scores also outperformed their indices (graph 4). However, it is worth noting that our analysis suggests that ESG benefits are more pronounced during a downcycle due to mitigation of environmental risk (only 21% of strong ESG profiles underperformed compared to 43% of weaker ESG profiles underperforming).

Figure 4. ESG profile of buyers and its impact on stock price returns (2014-2021)



Notes: Impact of ESG profile on stock performance compared to sectoral index returns is calculated by:

- *Segregating buyers based on their reported ESG scores at the time of M&A deal*
  - *Buyers with low ESG score <=40*
  - *Buyers with average ESG score <=60*
  - *Buyers with high ESG score: >60*
- *Comparing buyers' sectoral index returns (based on upstream, oilfield services, midstream, or downstream) to their stock returns (between date of M&A to latest).*

Sources: Deloitte analysis based on the data from Enverus, Refinitiv Eikon, and S&P Capital IQ databases.

Apart from ESG, the financial execution of the deal, the realization of synergies, robustness of the post-transaction plan, swift integration, cultural fit, and many other factors influence shareholder returns. Additionally, ESG in deal-making is not just about the "E"—which has been typically the case—it is equally about social (S) and governance (G) as outstanding social responsibility, local participation and partnering, diversity in management and workforce, and good governance business practices are also equally important in ensuring a successful deal closure. In fact, most buyers that displayed strong shareholder returns had consistently performed well across all three–environment, social, and governance—categories.

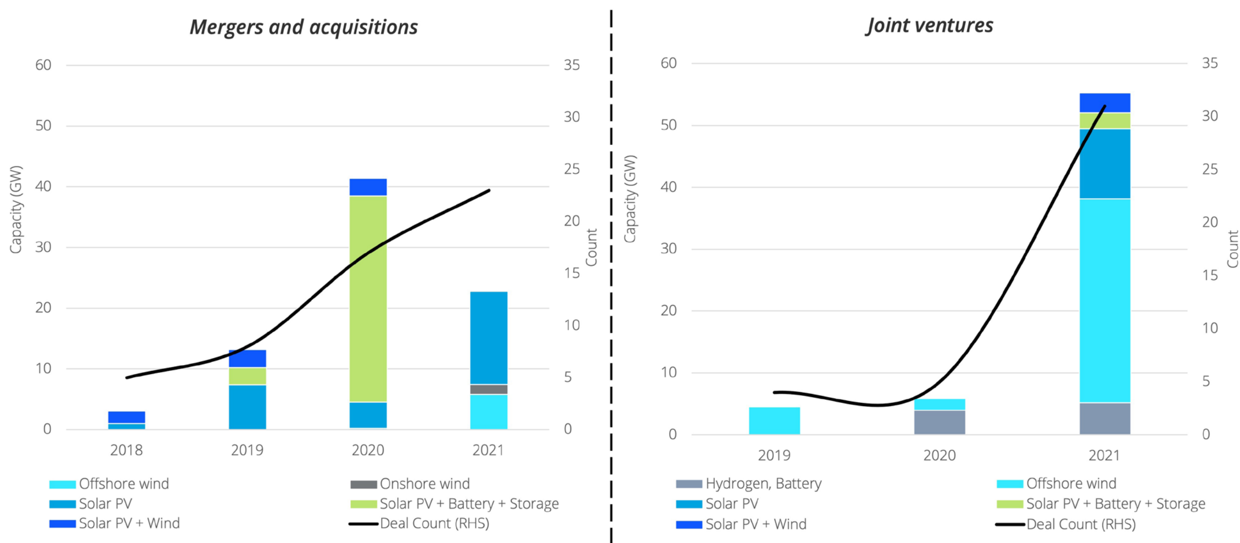
Outlook for 2022

ESG consideration in M&A to limit downside risk: ESG benefits are especially felt during a downcycle due to mitigation of energy transition and environmental risk. Additionally, buyers with ESG specialists working side by side with financial and legal advisory M&A teams—or those following a comprehensive and proactive ESG M&A due diligence framework—may be better placed to negotiate the right price and the right terms for a deal during commodity upturns in 2022.

3. Expanding into new energy businesses

Major O&G companies leveraged M&A to add around 80 GW of renewable capacity between 2018 and 2021 (figure 5), representing 9% of global renewable capacity additions across various industries during the same period.[34] Most of these additions were integrated solar plus storage. However, O&G companies' renewable M&A is witnessing a shift towards wind-based generation, particularly offshore wind, which accounted for a quarter of the total O&G-sponsored renewable capacity added in 2021.[35] The ever-improving technology, falling turbine costs, higher economies of scale, and widening geographic range of offshore wind are making it a strategic energy source. For example, BP entered the offshore wind market in 2021 by partnering with Equinor to develop offshore wind leases along the US East Coast[36].

Figure 5. Deal count and capacity addition in renewable energy by major O&G companies* (2018-2021)



*Note: *Data updated till December 2021; major companies include BP, Eneos, Eni, Equinor, GALP, PTTEP, Repsol, Shell, and TotalEnergies.*
Source: Deloitte analysis based on the data from Rystad Renewable Energy Analytics.

Currently, O&G companies have limited scope to build a scalable and differentiated position in solar and wind markets due to the fragmented nature of the renewable industry.[37] Therefore, O&G companies are increasingly exploring the route of JVs, reflected in capacity additions of more than 50 GW in 2021—twice that added through M&A in the year.[38]

- JVs are also important for developing an ecosystem around new carbon-abatement technologies such as hydrogen and CCUS, where the barriers to entry remain high owing to high capital costs.
- Consequently, JV-backed green hydrogen capacity for major oil companies increased by 30% in 2021 compared to 2020. TotalEnergies, for instance, is relying on such strategic partnerships to develop green hydrogen in Australia and carbon capture and underground storage in Norway.[39]
- BP's CEO, Bernard Looney, stated that BP would be more likely to reach its ambitious renewable energy target through the formation of strategic partnerships and JVs, rather than through direct M&A.[40]
- Notably, the role of JVs in commercializing new technologies is most evident for hydrogen electrolyzers. The share of hydrogen electrolyzers among utility-scale renewable projects across E&Ps is estimated to increase from 0.02% in 2021 to 3.20% in 2025.[41]

In addition to corporate JVs and partnerships, traditional investment is taking a nontraditional turn through public and private sector partnerships focused on building decarbonized infrastructure. These partnerships can help with large-scale CCUS projects capitalizing on energy corridors such as Oil Sands Pathways or the proposed Houston Ship Channel CCUS hub.

And while infrastructure represents a major hurdle in the growth of renewable energy, strong policy and regulatory support along with increased investments and innovation are helping overcome this challenge. The recently passed US Infrastructure Investment and Jobs Act (IIJA) allocates $9.5 billion and $6.5 billion for hydrogen development and carbon management, respectively.[42]

Outlook for 2022

JVs/M&A for integrated energy assets to gain traction: Although stand-alone renewable assets (e.g., onshore wind) should remain in demand, integrated energy assets that monetize synergies between hydrocarbons and new low-carbon technologies could gain more traction.

4. Changing role of energy information services

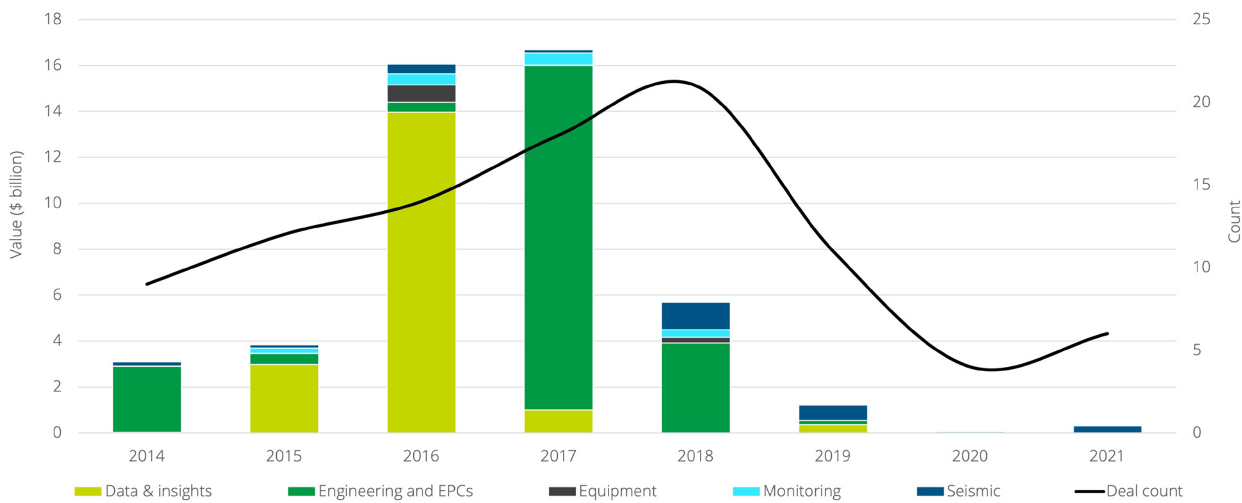
The generally less talked about energy information services (EIS)—including databases, benchmarks and indices, analytics, and several energy management, engineering, and monitoring solutions—have been instrumental in making O&G operations efficient, reliable, and cleaner over the years.

- From improving well and asset productivity, running operations remotely and safely, making the workforce and their skill set fungible, to pushing companies to develop their ESG goals, energy information services are helping O&G companies to navigate the new future of energy.
- The growing importance of EIS is also reflected in its M&A vibrancy, with nearly $50 billion worth of EIS assets exchanging hands since 2014[43].

Despite their growing importance, these services often face the brunt of industry downturn as these are typically among the first to be cut amid budget constraints. And in a recovery phase, they tend to be among the last to be reinstated causing EIS to lag behind the broader industry. For instance, oil prices achieved six-year highs in 2021, whereas EIS M&A deals activity remained at the second-lowest levels of the last six years (figure 6).[44]

However, particular areas of improvement can be glimpsed even under a gradual recovery. Seismic services, for instance, recovered to half of its pre-pandemic deal value in 2021 due to rebounding oil demand, which spurred offshore E&P activity, particularly in deep-water regions across Africa and Latin America[45].

Figure 6. M&A deal count and value in energy information services (2014-2021)



*Note: *Data and insights updated till December 2021.*

Source: Deloitte analysis based on the data accessed from the Enverus database.

Although the current EIS can help companies manage their emissions, new technological partnerships between O&G and technology companies are emerging to track and mitigate emissions actively.

- Oil majors Shell, TotalEnergies, and Chevron are actively collaborating with the satellite monitoring company GHGSat Inc to demonstrate the feasibility of the space-based methane-monitoring technology.[46]
- Baker Hughes is collaborating with SRI International and Electrochaea to expand its CCUS portfolio for applications across fossil-fueled power plants, gas turbines, industrial applications, and the cement industry.[47]

As the energy transition progresses and carbon-abatement technologies develop further, the overlap between EIS and OFS will likely continue to grow, presenting new partnerships and M&A opportunities for EIS companies.

Outlook for 2022

Continued diversification by leveraging solution- and service-oriented partnerships: Solution- and service-oriented partnerships to develop low-carbon solutions or integrate CCUS value chain from screening geological basins, characterizing the site in detail, piloting new technologies, integrating measurements, evaluating storage safety and performance, to developing new digital and learning platforms are expected to continue to gain traction in 2022.

5. Shifting private equity and infrastructure fund interest in O&G

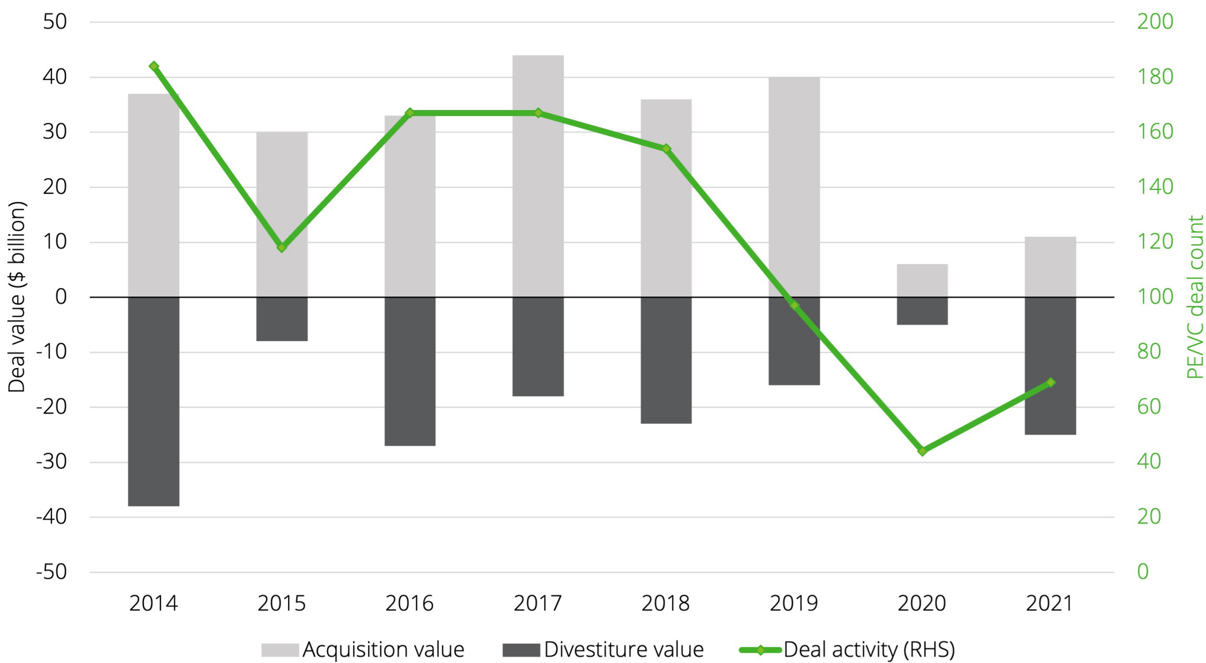
In the last decade, PE firms have increasingly emerged as a powerful investment force in O&G. Top PE financiers have invested about $1.1 trillion in the energy sector since 2010.[48] Scanning major PE firms worldwide, about 80% of their energy holdings since 2010 have been in oil, gas, and coal;[49] private financiers were active in the market when global oil markets faced price and supply upheavals a few years ago.[50] They targeted undervalued but potentially profitable O&G assets and aimed to generate profits during a rebound in oil prices.

In 2020, the slump in demand and prices resulted in the fewest fossil fuel deals from PE firms and several PE-backed shale producers filed for bankruptcy.[51] Additionally, a prominent share of O&G divestments (by deal value) was made by PE firms in 2021, while only a small percentage of deals were to PE buyers (figure 7). In fact, the net value of PE investments in the O&G industry has turned negative over the last couple of years and deal count fell by over 60% between 2014 and 2021.[52] Apart from the volatile oil prices, the low PE activity was also due to:

- Financing constraints and a lack of demand has made it challenging for PE-backed management teams to buy, capitalize, and profitably sell O&G assets given returns needing to be generated from production and operations;
- Less visibility in O&G companies' growth prospects; and
- Rising investment mandate for environmental buying.

Simultaneously, PE investments started expanding into the renewables space due to the increasing cost-competitiveness of renewable projects.[53] (While only about 12% of energy sector investment by PE firms has been in renewable power since 2010, these investments have grown at nearly three times the rate of investments in fossil fuels through 2020, although from a much lower base).[54]

Figure 7. M&A by PE and VC players in OG industry (2014-2021)



Sources: Deloitte analysis based on data accessed from the Enverus database.

With a recovery in oil prices in 2021, will PE investments in hydrocarbons bounce back, or is there a permanent shift in their strategies for oil and gas?

PE financiers' focus may be shifting within and not outside the O&G space. Although some major PE firms are considering pressing pause on their upstream investments, especially in North America and Europe, private investments are likely to continue into transition fuels and infrastructure.

- **LNG and midstream infrastructure:** LNG export facilities or existing LNG infrastructure has been attracting private capital over the last couple of years. For instance, Saudi Aramco invited bids from North American PE and infrastructure funds to raise $17 billion from selling a significant minority stake in its gas pipelines, following its $12.4 billion sale of leasing rights of its oil pipelines to a private-equity-led consortium.[55] Similarly, a US-based PE firm invested $830 million in a US midstream infrastructure company.[56]
- **Downstream infrastructure:** Some Gulf-based sovereign wealth funds have been investing in O&G sectors such as infrastructure, retail and marketing, thus reducing their dependence on regional upstream assets. Mubadala, for instance, has been distributing its investments locally and internationally in areas including Reliance Industries' retail business.[57] Similarly, Kuwait's pension fund has started reallocating its stocks to invest in US-based infrastructure.[58]

As some large NOCs seek monetization of their infrastructure through private investments and Asian economies target energy security, private investors in these regions could continue to have substantial growth prospects. For example, a consortium of global investors invested close to $12.7 billion in ADNOC's pipelines and real estate.[59]

Outlook for 2022

PE investments to shift within O&G sectors and regions: PE firms, despite increasing stakeholder pressure, would likely continue investing in assets related to energy transition such as LNG, gathering pipelines, and offshore infrastructure. Moreover, relatively smaller indirect investments could also be expected for O&G exploration or shales via holding companies, which are aimed at restructuring and capitalizing existing assets to build a lucrative acquisition target in 2022.

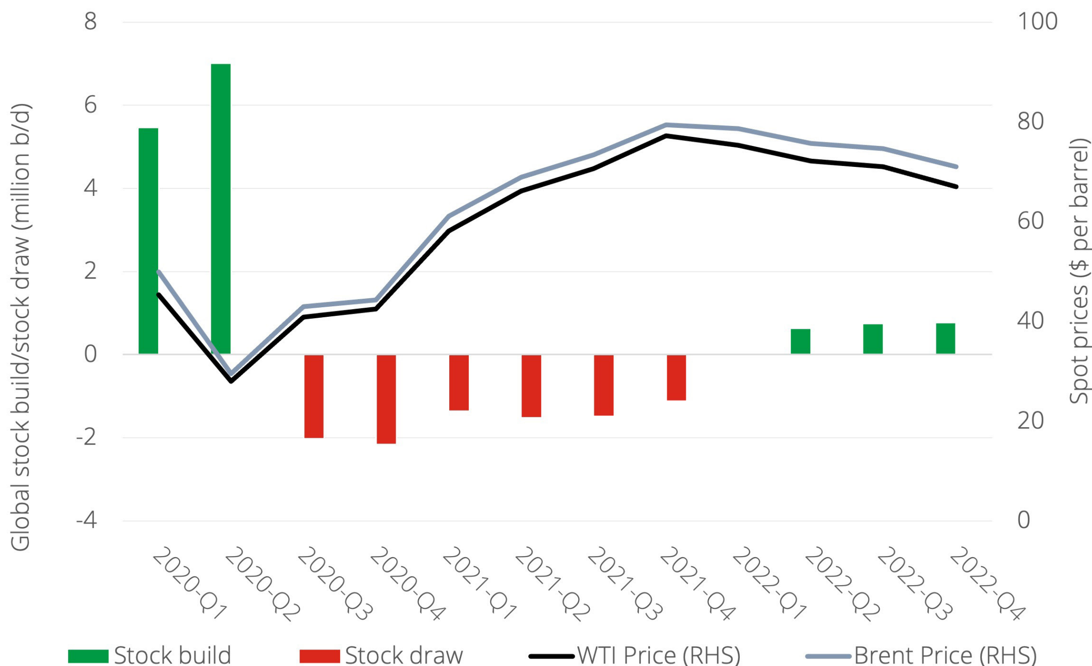
Signposts for M&A in 2022

Oil prices have made a strong start to 2022, breaching $100 mark for first time since 2014 due to changing geopolitical landscape, low oil inventories, and cyclical bull run in all major commodities. So, what's in store for 2022? The three signposts below could influence the continuity of momentum in 2022 and help the industry to better prepare for the unexpected.

- **Overall macroeconomic and geopolitical environment:** Fiscal-stimulus-fueled increases in consumer demand, tightness in the labor and energy markets, a shift in spending from services to goods, and pandemic-induced disruptions have led to record inflation worldwide (US consumer inflation grew by a record 7.0% YoY in December 2021).[60] If inflation remains high and pent-up demand starts dissipating especially in light of futher commodity price increases, central banks worldwide will likely increase interest rates, in turn dampening industrial growth and consumer spending in 2022. According to the World Bank, global GDP growth is expected to decelerate markedly from 5.5% in 2021 to 4.1% in 2022 and 3.2% in 2023.[61]
- **Oil's supply-demand balance:** In 2022, global oil production growth (6.4 MMbbl/d) is projected to outpace demand growth (3.1 MMbbl/d, base case scenario).[62] Although the coming year is projected to be the strongest supply year for the oil industry, the evolving landscape resulting from Russia's military invasion of Ukraine could severely alter the demand-supply balance of crude oil and natural gas in select regions (figure 8).
- **COVID-19 viral mutations:** Just when the Delta variant was subsiding, the WHO listed Omicron as a new "variant of concern." While the Omicron wave is subsiding across the globe, global daily cases of COVID-19 still hover above 1.5 million.[63] Although early data suggests that the variant is less severe, many nations have restricted social gatherings and stepped up border controls due to its high contagiousness. All eyes will be on the variant's spread and any further mutations in 2H2022.

An uncertain macroeconomic, geopolitical, and oil price environment suggests flat-to-moderate O&G deal-making in 2022. Although record cash flows would lend support in financing deals, O&G companies may well continue to priortize capital discipline, balance sheet strengthening, and shareholder distributions over price-led growth and spending in 2022.

Figure 8. Global liquid fuels supply/demand balance (2020-2022)



Source: US Energy Information Administration Short Term Energy Outlook (January 2022)

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