Permian 2017: Valley of the A&D Kings
December 15, 2016

Down to the wire in 2016, Permian Basin A&D continues to be the stuff of epics—with deals stretching well beyond $1 billion despite one of the more prolonged low-priced oil environments in recent memory.

What of 2017? Things are going to change, particularly if oil prices hold up in the $50 range and especially if they reach the rarified $70 point. Other basins will begin to heat up and competition—thanks to available capital—could be fierce.

For most of the year, U.S. shale basins have endured a long season of A&D neglect as the Permian's reputation for forgiving breakeven points has made deals palatable there.

The Permian A&D boom has been not just loud, but also sustained with less than 10 deals eclipsing the 10-figure mark since July for $17.7 billion in value.

Irene O. Haas, an analyst for Wunderlich Securities, agreed that other areas will begin to get interesting.

"It is truly mind-bending how many multimillion- and billion-dollar deals have been initiated and closed in the Permian region just in [the second half of 2016]," she said. "The Delaware Basin in particular has seen a number of new entrants such as Centennial Resources, PDCE, RSP Permian and Callon Petroleum."

Haas expects more drilling and M&A catalysts from the Permian in 2017 before the basin runs out of leg room.

Permian Megadeals: 2016

Announced	Buyer	Value ($MM)
Sept. 6	EOG Resources	$2,451
Dec. 14	Diamondback Energy	$2,430
Oct. 13	RSP Permian Inc	$2,400
Oct. 31	Occidental Petroleum Corp.	$2,000
July. 22	Silver Run	$1,735
Aug. 15	Concho Resources	$1,625
Oct. 18	SM Energy Co.	$1,600
Aug. 23	PDC Energy Inc	$1,505

Source: Hart Energy

George N. Koutsonicolis, a managing director with SOLIC Capital Advisors LLC, said that the price per acre has simultaneously increased as demand for acreage has grown.

However, "I think that most of the transactions you've seen in that space have been more reserves, not actual producing wells," he said.

As far as what's remaining to acquire, at the end of the day everything is for sale at the right price.

"If there's continued demand in that basin, I think you'll see more reserves than actual producing wells being sold," he said. "Some of the small players may be looking to monetize and equitize their capital investment. So they'd be big sellers in that market."

Koutsonicolis said that at least for the next six months the Permian will likely continue to dominate.

"Again the caveat is that oil holds above $50 a barrel. That will definitely drive the transaction activity in the Midland and Delaware basins," he said. "Once that pool of assets has transacted you're going to see activity spreading out to the other basin."

Mike Bengtson, an attorney at Baker Botts who handles M&A and capital formation transactions, said he's already starting to see movement in other basins, particularly the Eagle Ford.

Bengtson represents a private-equity backed client looking at multibillion dollar packages offered by a seller that wants to concentrate on the Permian and other areas.

"Some of the smaller players are going to buy off some of the bigger players in the Eagle Ford," he said.

As for the Permian outlook, with regulatory, political and price tailwinds, the debt and equity markets are likely to be more open to E&Ps. With access to capital, that will mean more competition.

"From a macro environment, I think I see more buyers, less sellers going into 2017," he said. "Companies that haven't had the balance sheet to compete on transactions potentially can."

Bengtson said deals are likely to get larger and more strategic.

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