

EGYPT OIL&GAS RESEARCH & ANALYSIS

UNLOCKING OPPORTUNITIES

A DEEP DIVE INTO

OIL & GAS MERGERS AND ACQUISITIONS

STRATEGIC APPROACH
Vol. 2

NOVEMBER
2024

The Team

CEO
Mohamed Fouad

General Manager
Ayman Rady

Research & Analysis Manager
Dr. Mahinaz El Baz

Research and Analysis Supervisor
Reham Gamal

Associate Research Analysts
Jolly Monsef
Mariam Ahmed

Research Analysts
Nermeen Kamal
Mahmoud Yasser

Statistician
Nada Abbas

Data Analyst
Mazen Youssry

Managing Editor
Ihab Shaarawy

Senior Editor
Nader Ramadan

Chief Reporter
Wael El-Serag

Senior Marketing Executive
Amira Essam

Creative Art Director
Omar Ghazal

Graphic Designer/Motion Designer
Amira Hassan

Graphic Designer
Aya Soliman





Table of
Contents

Overview	06
Key Trends	08
Efficiency Boosting Recommendations	14

Overview

BY JOLLY MONSEF & NERMEEN KAMAL



As the global energy landscape shifts, **strategic deals have become increasingly vital** to the oil and gas sector, driving growth and innovation.

The oil and gas sector is a critical player in the global economy. As demand for oil and gas continues to rise, production companies face substantial challenges requiring new strategies to remain resilient and boost production from their assets. In this context, mergers and acquisitions (M&A) transactions play a crucial role in supporting oil and gas production from concessions.

Beyond enhancing production, M&A activities impact the entire supply chain, optimizing efficiency from exploration to distribution. By consolidating resources, these transactions streamline logistics, reduce costs, and enhance resilience across the sector, enabling companies to adapt to shifting demands.

Different Types of Transactions

A merger occurs when two companies combine to form a new entity. In a merger, the boards of directors for two companies approve the combination and seek shareholders' approval, according to PwC Global M&A Trends in Energy, Utilities & Resources.

Acquisition means one company purchasing another, typically maintaining its business name, legal structure, and operations. These transactions are common in the industry due to the capital-intensive nature of oil and gas exploration, production, and infrastructure development, allowing firms to expand operations and diversify their portfolios, according to PwC's report.

There are various types of M&A deals in the energy sector. Asset acquisitions involve the purchase of specific assets, such as oil fields or pipelines, while share acquisitions entail buying the majority of a company's shares.

Farm-in and Farm-out are essentially types of asset acquisitions. A Farm-in involves acquiring a stake in a project to share costs, while a farm-out transfers part or all of a license interest with specific obligations and deadlines.

Egypt, a significant player in the energy landscape, is actively involved in the M&A deals in the oil and gas sector. The country's strategic location, abundant reserves, and ongoing efforts to attract foreign investment make it an attractive destination for more deals.

As a result, the country has witnessed several notable M&A transactions in recent years, involving both domestic and international companies. These deals have contributed to the development of Egypt's infrastructure, increased production capacity, and strengthened the country's position as a regional energy hub.



Key Trends

Global M&A Landscape

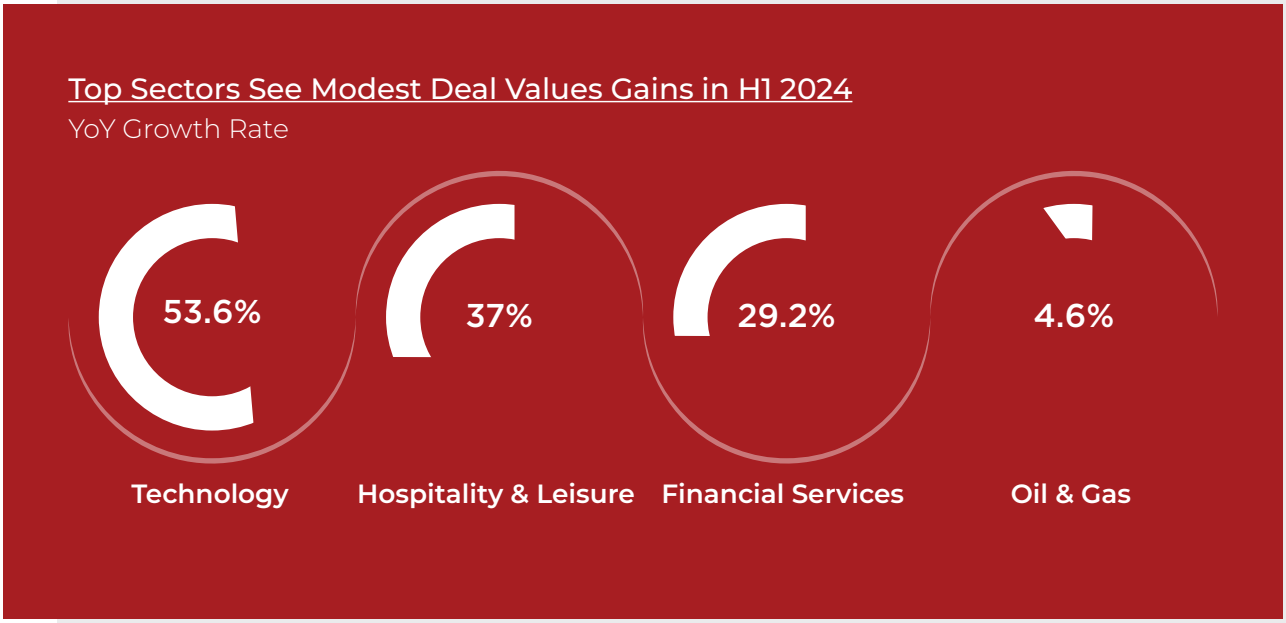
The global M&A market continued a downward trend starting in 2022, as deal volumes dropped by 25% in the first half (H1) of 2024 compared to the H1 of 2023. Conversely, deal values witnessed a 5% rise over the same period. The oil and gas sector was one of the four sectors that fared better, with only a drop in deal volume and an increase in deal values, according to the Global M&A Industry Trends by PwC.

Several factors have contributed to the surge of M&A in the oil and gas sector, including large companies' deal activity, security of supply, asset portfolio balancing and diversification, synergy realization, and improved investment returns at current commodity prices, according to the PwC's report.

Oil & Gas M&A Deals YoY Dynamics in H1 2024

Value 4.6%

Volume -9.9%



Regional M&A Activities

The Middle East and North Africa (MENA) region experienced a notable uptick in M&A activity, reflecting ongoing investment and strategic growth within the market. Given its unique position at the crossroads of Europe, Asia, and Africa, the MENA region continues to attract significant interest from global investors.

In the H1 of 2024, cross-border M&A was particularly significant, comprising 52% of total deal volume and 87% of total value. Domestic M&A accounted for 48% of the overall deal volume, and the Gulf Cooperation Council (GCC) companies participated in 85% of the domestic transactions with a total of 155 deals, indicating robust M&A activity in the region, according to the EY press release.

Major Energy M&A Transactions in the MENA Region

The MENA region, endowed with abundant natural resources, is a pivotal player in the global oil and gas industry. Despite the challenges posed by volatile crude oil prices, geopolitical risks, and regulatory hurdles, the region experienced a surge in M&A deal activity from 2022 to the H1 of 2024.

In August 2022, Saudi Aramco signed an equity purchase agreement to buy Valvoline Inc.'s global product (VGP) line for $2.65 billion to strengthen Aramco's portfolio of premium branded lubr cant products, optimize its global base oil production capacity, and expand its research and development initiatives and partnerships with original equipment manufacturers.

In September 2022, Eni acquired bp's business in Algeria, encompassing the gas-rich In Amenas and In Salah concessions.

In March 2023, bp and Abu Dhabi National Oil Co. (ADNOC) announced a deal to acquire a $2 billion major stake in Israel's NewMed Energy. The decisions were halted due to the uncertainty created by the external environment. Additionally, TotalEnergies of France acquired CEPSA's upstream assets in the UAE for $1.6 billion.

In April 2023, Panoro Energy strengthened its presence in Tunisia by acquiring Beender Tunisia Petroleum's minority stake in Sfax Petroleum Corporation (SPC) for $18.2 million.

In June 2023, Eni and Var made a bid to acquire Neptune Energy Group Limited valued at $5 billion. Tende Energy acquired Anglo Tunisian Oil & Gas (ATOG), while Calvalley Petroleum purchased a stake in the onshore Tendrara concession in Morocco from Sound Energy.

In December 2023, Energean PLC farmed into the Anchois gas discovery and nearby exploration block offshore Morocco from Chariot Energy.

M&A Trends in Egypt

Historically, Egypt has redefined its M&A legal framework to respond to evolving economic conditions and international investment environments. This transformation demonstrates a forward-thinking approach aimed at building investor confidence and enhancing market competitiveness.

Egypt is one of the dominant countries in the Middle East region in terms of deals activities in the H1 2024. Egypt noted a 21% increase in deals during H1 2024 compared to the same period in 2023, reaching a deal volume of 46. This followed a significant economic turnaround, driven by a $35 billion investment from the UAE, according to PwC 2024 TransAct Middle East Mid.

Legal Framework of M&A

Egypt's regulatory and legal framework created a conducive environment for investment in the energy sector. Public M&A transactions in Egypt are primarily regulated by Capital Market Law No. 95 of 1992 and its Executive Regulation No. 139 of 1993, along with Companies Law No. 159 of 1981. The Egyptian Financial Supervisory Authority (EFSA) is tasked with enforcing chapter 12 of the Executive Regulation of Law No. 95 of 1992. This chapter outlines procedures related to tender offers, disclosure obligations, regulatory measures, and penalties, which can include both financial fines and imprisonment.

To maintain market competition and serve the public interest, the Egyptian Competition Law (ECL) mandates that significant M&A transactions be reported in advance.

Moreover, safeguarding the rights of minority shareholders is essential, with the framework emphasizing transparent communication and equitable treatment for all parties involved. The M&A processes in Egypt are characterized by thorough due diligence and strict adherence to compliance measures.

The Egyptian M&A Legal Landscape Key Aspects

Approval and Reporting Mechanisms

Protection of Minority Shareholders

Rigorous Due Diligence and Compliance

New Ex-ante Control of Economic Concentrations Guidelines

M&A activities in Egypt are primarily regulated under the ECL, which was originally established by Law No. 3/2005 and updated by Law No. 175/2022 and on 4 April 2024, Decree No. 1120/2024 issued amending some provisions of the Executive Regulations of ECL. These updates empower the Egyptian Competition Authority (ECA) to oversee and review economic concentrations. The intent behind these regulations is to boost a fair market environment by monitoring large-scale M&A activities that might impact competition levels in various sectors.

The ECL defines economic concentration as any merger, acquisition, or joint venture (JV) that leads to a change in control or material influence over an entity. This influence may take the form of ownership, voting rights, or strategic decision-making power. M&A activities that fall under this definition include several types of transactions. Horizontal concentrations, Vertical concentrations, and conglomerate concentrations.

The ECL establishes specific thresholds to determine which M&A transactions must be reported to the ECA for prior approval.

Domestic Thresholds

- The combined turnover or value of assets of the involved entities exceeds EGP 900 million
- Each of at least two entities involved has a turnover exceeding EGP 200 million in Egypt in the last year of the last audited consolidated financial statements

International Threshold

- The combined worldwide turnover of the entities exceeds EGP 7.5 billion
- At least one entity having a turnover of EGP 200 million or more in Egypt in the last year of the last audited consolidated financial statements



Notification must be submitted before finalizing a transaction, ideally during initial discussions or agreements, such as when signing a memorandum of understanding (MoU) or beginning substantial negotiations. Along with the notification, a comprehensive file must be provided, including financial statements and proof of payment of the filing fee.

Major M&A Activities in Egypt's Petroleum Sector

During the past years, the number of M&A activities has significantly increased in the Egyptian oil and gas sector. M&A activity in Egypt was a major theme in 2023. Deal activity continued throughout the year, with more assets being offered for sale in H1 2024 and previously agreed deals being completed. M&A activities were categorized into two types: company M&A, which involves the merger or acquisition of another company's assets, and concession M&A, which involves the acquisition of a specific concession area from another company.

For instance, in June 2022, Tullow Oil and Capricorn Energy finalized a merger agreement within an all-stock deal worth $826.7 million, in which its Egyptian onshore gas fields will have the second-largest share of production.

Another deal was made in August 2022, as Egyptian Natural Gas Holding Company (EGAS) and Ganoub El Wadi Petroleum Holding Company (Ganope) acquired 50% of the Egyptian Drilling Company (EDC) which the Japanese Toyota company owned. By the acquisition, Egypt has fully owned the two offshore rigs Al-Qaher 1 and Al-Qaher 2.

In January 2023, Apex International Energy (Apex) acquired interests in four concessions in Egypt's Western Desert oil-producing region from IEOC Production B.V. (IEOC), a unit of Eni.

Additionally, ADNOC Distribution completed the acquisition of a 50% stake in TotalEnergies Marketing Egypt in February 2023, marking the official entry of the largest UAE fuel and retail distributor into the Egyptian market.

In March 2023, Sea Dragon Energy (Nile B.V.) and Energy Flow Global Limited (EFGL), reconstituted their acquisition transaction in SDX Energy. Based on this, Nile B.V. has assigned a direct 18.15% interest in the South Disouq concession to EFGL. EFGL has simultaneously returned its 33% stake in Nile B.V. to SDX for a nominal fee of $1.

In July 2023, the National Service Projects Organization (NSPO) acquired a 20% stake in TAQA Arabia for EGP 1.6 billion.

Further, one of the most important deals was announced by the end of H1 2024, Harbour Energy had announced a significant acquisition of the concession areas of Wintershall Dea in Egypt. Additionally, in June 2024, Energean plc signed a binding agreement with Carlyle International Energy Partners ("Carlyle") to sell its portfolio in Abu Qir, Egypt.

In H2 of 2024, ECA approved the acquisition of the Abu Dhabi Developmental Holding Company (ADQ) to a stake in the Egyptian Drilling Company (EDC), Egyptian Ethylene and Derivatives Company (ETHYDCO), the Egyptian Linear Alkyl Benzene Company (ELAB). Additionally, in November 2024, QatarEnergy agreed with Chevron to acquire a 23% working interest in the concession agreement for the North El-Dabaa (H4) Block, in the Mediterranean Sea offshore Egypt.

Prominent Farm In & Out Agreements

The Egyptian oil and gas sector has seen a significant number of farm-in and farm-out agreements (FOAs) in recent years.

For instance, in December 2021, Shell signed FOAs with QatarEnergy, under which QatarEnergy will acquire a 17% stake in each of Shell-operated Block 3 and Block 4 in the Egyptian Red Sea.

In September 2023, BG International Limited signed a FOA with Foreign Petroleum Exploration Company (KUFPEC) Egypt Limited (KEL), by which KEL will acquire a 40% stake in Block 3 NorthEast El-Amriya in the Egyptian Mediterranean Sea.

Notably, in May 2024, QatarEnergy signed a farm-in agreement with ExxonMobil to acquire 40% participating interest in two exploration blocks offshore Egypt.

Risk Factors

M&A activity in Egypt is influenced by various factors, including risks that can negatively impact companies during or after a transaction. These risks encompass economic conditions, government regulations, and other considerations.

Companies, regardless of their sector, should carefully evaluate all potential risks to avoid adverse consequences before entering into an M&A agreement.

Economic Risk Factors	Financial Risk Factors
Economic risk factors affect a company's performance. These mainly include interest rates and exchange rates.	It is mainly related to cash flow, money that comes into and goes out of your business, and debt, high levels of debt can make it difficult for companies to operate effectively.
Political Risk Factors	**Strategic Risk Factors**
Political risk factors are the potential effects of changes in government regulations, political stability, and trade relationships. The most common example is when a new government comes into power and decides to change or repeal existing laws or policies.	The main strategic factors that can impact the success of M&A include competition and market position. It is important to know how to compete against existing rivals and gain greater market share from other players.

Efficiency Boosting Recommendations



Several obstacles are hindering M&A activity in the energy sector. These challenges can vary across countries due to differing geographical, economic, and regulatory conditions. Additionally, a confluence of factors, such as rising interest rates, economic slowdown, and geopolitical tensions, is further impeding M&A deals. The resolution of current challenges, without the emergence of new ones, will foster a more conducive market environment for M&A activity.

Countries must strive to establish an attractive business environment by providing incentives and regulatory frameworks that encourage companies' expansion and economic development. To maximize value, buyer and seller companies have to carefully align their M&A strategy with their strategic goals, undertake comprehensive pre-transaction preparation, and develop a robust sustainability approach to both protect and enhance value.

The cyclical nature of the oil and gas sector, coupled with the ongoing transition towards clean energy, compels companies to strategically navigate their M&A activity. They should balance short-term gains from high energy prices with long-term sustainability, as oil and gas demand inevitably declines.

As the world shifts towards the energy transition, M&A opportunities will significantly contribute to achieving net-zero goals. M&A will also play an important role in helping companies take an innovative approach to reconfiguring their business models to achieve major transformation.

M&A activities have become an attractive option for energy companies seeking growth and expansion within the sector. This is facilitated by international and local support, as evidenced by robust laws and policies that address potential disputes arising from transactions.

The recent M&A deals formed in the Egyptian oil and gas sector show a significant shift, positioning the country as a prime destination for future investment opportunities. The Egyptian government's commitment to attracting foreign investment and promoting economic diversification has played a crucial role in driving this surge in M&A activity.



UNLOCKING OPPORTUNITIES

A DEEP DIVE INTO

OIL & GAS MERGERS AND ACQUISITIONS



EGYPT OIL&GAS
RESEARCH & ANALYSIS

WWW.EGYPTOIL-GAS.COM