Oil Drop Seen by A.T. Kearney to Spur $450 Billion M&A Spree

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Oil and gas companies will spend about $450 billion buying each other this year as lower valuations caused by a drop in crude prices stimulate mergers and acquisitions, according to consultants A.T. Kearney.

The value of transactions in the oil and gas industry will probably rise by $10 billion from last year when deals totalled $440 billion, said Richard Forrest, A.T. Kearney's lead partner for energy. The increase will accelerate in the second half of 2015, he said.

"2015 is a pivotal year where a sustained low oil price will trigger the start of a new wave of M&A activities," he said Monday in an interview in Dubai.

Brent crude fell 48 percent last year amid a surge in supply of North American shale oil and the refusal of the Organization of Petroleum Exporting Countries to cut production. Crude rebounded this year as U.S. drilling slowed. Brent, a benchmark for more than half of the world's oil, was trading 27 cents lower at $60.75 a barrel at 10:28 a.m. Wednesday in London.

Producers and explorers including Royal Dutch Shell Plc and Chevron Corp. have announced spending cuts of almost $50 billion since Nov. 1. Gulf Keystone Petroleum Ltd., which is exploring for energy in Iraq's Kurdish region, said last month it was talking with parties it didn't identify about a possible merger or sale.

In the chemical industry, which uses oil and natural gas as feedstock, activist investors rather than commodity prices will be the main driver of consolidation, Forrest said.

Aramco's Plans

The value of mergers in the chemicals business rose 13 percent to $82 billion in 2014, spurred partly by investors who advocated asset sales to boost shareholder returns, he said. Dow Chemical Co. in November offered board seats to Third Point LLC after the hedge fund agreed to stop calling for Dow to sell its petrochemical business.

"In chemicals, activity will continue, and the industry is not waiting for a value adjustment from the oil price," he said.

Chemical companies are set to sell non-core assets in 2015, he said, citing a survey of about 50 industry executives.

Middle Eastern energy-producing states could take advantage of such sales to add assets and buy new capabilities, Forrest said. Saudi Arabian Oil Co., the world's largest crude exporter, seeks to become the world's biggest chemicals maker, Chief Executive Officer Khalid al-Falih said in March 2013. The drop in oil prices won't derail that project, he said in Dubai in November.

Saudi Aramco, as the company is known, was discussing the potential purchase of a minority stake in German chemical company Lanxess AG's synthetic-rubber unit, two people with knowledge of the matter said last month.