

Signs of Progress in Nigeria's Upstream as Major M&A Deals Inch Forward

Media Mentions

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Nigeria's upstream sector has recently shown signs of progress with two multi-billion-dollar asset sales inching forward coupled with sector reforms and a new licensing round.

President Bola Ahmed Tinubu's government has repeatedly emphasized the need for economic reforms and, in March, introduced measures to encourage more investment in the upstream sector. The reforms were intended to address flaws in the Petroleum Industry Act of 2021 and included executive orders that introduced tax credits for some onshore and shallow-water locations.

"One order covered tax credits, trying to incentivize further upstream operations and developments. Another order sought to limit government oversight and approvals for their joint venture contracting arrangements, in order to quicken decision-making processes," Bracewell's **Adam Blythe** told *African Energy*.

As for getting deals over the finish line, advisers expect to see more transactions involving majors exiting their onshore acreage and local companies taking over.

However, Blythe said the trend could only continue "if the government endorses that shift and that requires, among other things, ministerial approvals to a backlog of such deals."

Blythe said there was a long queue of applicants waiting for ministers to approve signed deals. "Until the position of those approvals is resolved, we can expect a pause in M&A in Nigeria's upstream sector," he said.

Analysts added that majors who were considering making changes to their Nigerian upstream portfolios may wait for the divestments to make more progress before trying to seal any new deals. And while majors' assets would

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appeal to local players, the pool of buyers with the financial capability to acquire more assets would be limited.

“Over the last five years, we have seen the retreat from the sector by many of the principal lenders on the prior round of significant Nigerian divestments. This has led to a reduction in the pools of capital available for these transactions, though we are seeing alternative sources looking to plug the gap,” said Blythe.

In addition, new export pipelines and terminals are being developed to divert volumes away from security hot spots. This is perhaps where the biggest opportunities exist for sustained production growth from onshore fields. Having alternative export routes is a key concern, given recent history.

“Many of the assets acquired in the last divestment round from the majors were all tied-in to the main pipeline routes,” said Blythe. “When force majeure was called on many of those pipelines, those indigenous company buyers lost their principal route to market and their production effectively shut in.”

In the meantime, the majors appear content to retain their more lucrative deep-water offshore assets.

As Blythe put it, “these areas are insulated from some of the issues they faced with their onshore assets – issues around bunkering and pipeline disruption, and community and environmental actions.”

The capital commitments needed for deep offshore projects “are so great that this can limit the buyer universe to those who can meet the development costs,” Blythe observed.