Three Ways to Trade a Potential Oil M&A Boom

Oil M&A ground to a halt in early 2019.

All thanks to plunging oil prices on excessive global supply.

In fact, U.S. oil and gas M&A fell 93% in the first quarter of 2019 to just $1.6 billion. But, that's what happens when oil prices plummet more than 40%. However, as oil prices begin to recover, we're seeing a return of respectable M&A in the sector.

Just last week, for example, Chevon (CVX) announced it would buy Anadarko Petroleum (APC) in a cash and stock deal valued at $33 billion. That values APC at $65 a share – a 37% premium to its Thursday closing price. That, by the way, is the 11th biggest offer for an energy company.

However, we believe this is only the start.

We believe that as oil begins to recover, we could see an incredible return of M&A activity.

Here are the top three stocks we believe could run on potential interest.

Oil Opportunity No. 1 – Devon Energy (DVN)

Devon Energy (DVN) engages in the exploration, development, and production of oil, natural gas, and natural gas liquids in the United States and Canada.

The CEO believes the stock can create sizable value for investors. For one, according to the CEO on an earnings call, "We are unveiling a New Devon. We have been signaling strongly to the market for some time that when our U.S. oil assets achieve operating scale, exiting Canada and the Barnett is our path forward. What we present to you today is the culmination of an exhaustive strategic and operational review. The results, we believe, will put Devon in a position to become a consistent upper-echelon performer driving durable improvements in shareholder value. We have the assets and we have the team to do this. In short, we are aggressively reshaping Devon to win, and we will win."

The company CEO also noted that he intends on returning a bulk of free cash to shareholders. For example, it recently boosted its dividend and added a billion dollars to its buyback program.

"Bottom line is that we see a tremendous investment opportunity in Devon and we have put our money where our mouth is by aggressively buying back our stock over the past year. Devon represents a unique value proposition in the E&P sector that is recognized by the company and our board has authorized another increase in our share repurchase authorization to $5 billion. We will be actively buying back shares at this attractive valuation."

Oil Opportunity No. 2 – Kinder Morgan (KMI)

"This really is a fan favorite right now within this space because of its clean balance sheet, its clear visibility, and it's certainly seeing... that momentum," Susquehanna's Stacey Gilbert told CNBC. "All that being said, what I would say, from a sentiment perspective of what we're seeing in both the options and kind of what's trading out there in the stock, is we could be coming up to an area where it's either breaking out or it's really gone too far, too fast."

Plus, insider activity has been interesting.

Co-founder and executive Chairman, Richard Kinder continues to buy stock. Already, between February 15 and 21, 2019, he bought 519.112 shares for $9.9 million.

In addition, the company has a 4% yield and is expected to increase its divided 25% over the next two years. That’s on top of a 60% dividend increase in 2018.

Oil Opportunity No. 3 – Marathon Oil (MRO)

We mentioned Marathon Oil a couple of weeks ago. We still like it here, as a potential M&A target.

Fundamentally, the company looks strong. It just posted third quarter net income of $254 million, after reporting a loss in the year-earlier period. It had a profit of 30 cents. Adjusted EPS was 24 cents. That beat Street estimates of 20 cents a share. Revenue came in at $1.67 billion, exceeding estimates of $1.5 billion.