MENA M&A Activity, Q2 2016

Based on data from Zephyr, the M&A database published by Bureau van Dijk

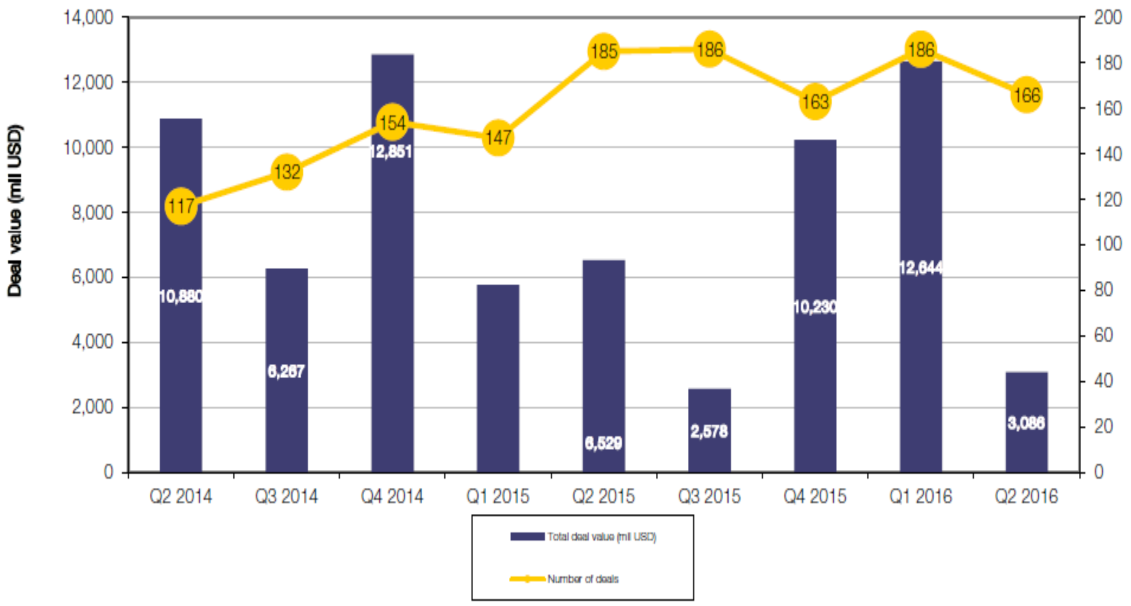
After a promising Q1 the second quarter of 2016 has failed to reach the same heights in terms of M&A activity targeting companies based in the Middle East and North Africa (MENA). In all there were 166 deals worth a combined USD 3,086 million signed off over the three months, compared to the USD 12,644 million injected across 186 transactions in the first quarter, according to Zephyr, the M&A database published by Bureau van Dijk. However, the decline has been much less notable year on year, particularly in terms of value; in Q2 2015 there were 185 transactions worth USD 6,529 million. The lion's share of MENA dealmaking in 2015 came in the final quarter of the year, when some USD 10,230 million was injected into companies based in the region. As a result, an uptick is still possible during the coming months and given the impressive USD 12,644 million-worth of dealmaking notched up between January and March there is every chance that 2016 could end up setting a particularly high benchmark in terms of M&A value.

As always, the best indication of why a quarter has performed in a certain way can be gleaned by looking at the largest transactions signed off over the period. In Q2 2016, a lack of large deals appears to have held value down; no transactions broke the EUR 1,000 million barrier over the three months, compared to three such deals in Q1, two of which were worth in excess of USD 2,000 million. The most valuable transaction signed off in Q2 was worth just EUR 508 million and took the form of a rights issue by Gole Gohar Mining & Industrial Company. In April the firm announced it would issue stock equating to a 25 per cent stake as part of the transaction. This deal alone accounted for 16 per cent of total value injected into the MENA region over the three months, thereby highlighting the effect large deals can have on a region's performance and emphasising the difference that could have been made to results if any deal had broken the USD 1,000 million barrier.

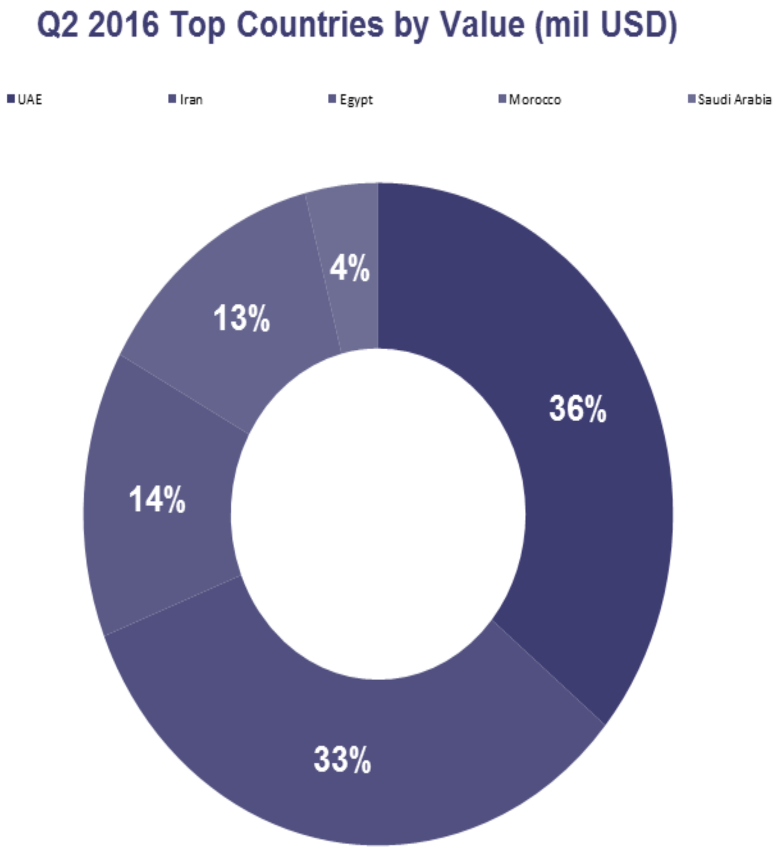
The rights issue was worth only slightly more than the second-placed transaction signed off during the quarter – a USD 457 million rights issue by UAE-based hotel and theme park operator Dubai Parks and Resorts.

Some eight deals broke the USD 100 million barrier in Q2, compared to 16 such transactions in the first three months of the year, once again highlighting the fact that even if volume does not reach record-breaking levels, a small number of significant deals can change the fortunes of an entire quarter. More deals on the scale of the USD 3,703 million Kuwait Food Company acquisition or Danah Al Safat Foodstuff Company's USD 2,029 million sale of its stake in Al Safat Energy, both of which were signed off during Q1, will be needed over the rest of 2016 if the remaining quarters are to reach similar levels to Q4 2015 and Q1 2016. All previous quarters with impressive performances can trace high aggregate value levels back to a few big deals. A good example is the USD 7,566 million acquisition of Orascom Construction Industries signed off in Q2 2013, when 19 deals broke USD 100 million and dealmaking totaled USD 15,813 million over the three months, making it the highest quarterly value for the MENA region since Q3 2008 (USD 18,931 million), according to Zephyr.

After missing out on the top spot in Q1 the UAE led the country rankings in terms of aggregate value in Q2 2016. This is hardly surprising given that five of the top ten transactions announced over the three months featured targets based in the country, including the aforementioned Dubai Parks and Resorts deal, which was the quarter's second-largest by value. In fact, this deal accounted for almost half of all value injected into the country over the three months, which totaled USD 945 million across 27 deals. This figure improves on the USD 738 million recorded in the country during the first quarter, but is dwarfed by other recent showings for the likes of Q4 2015 (USD 5,069 million) and Q2 2015 (USD 2,848 million). UAE value was worth only slightly more than second-placed Iran, which notched up USD 892 million. That figure is also unsurprising as the country was targeted in the quarter's most valuable transaction – the USD 508 million rights issue by Gole Gohar Mining & Industrial Company, which accounts for 57 per cent of total dealmaking in the country, while the quarter's top 25 transactions by value include five Iranian deals worth a combined USD 819 million, making up the bulk of aggregate value injected into the country over the three months. Other countries which placed highly by value include Egypt, which was targeted in deals worth a combined USD 387 million in Q2 2016.

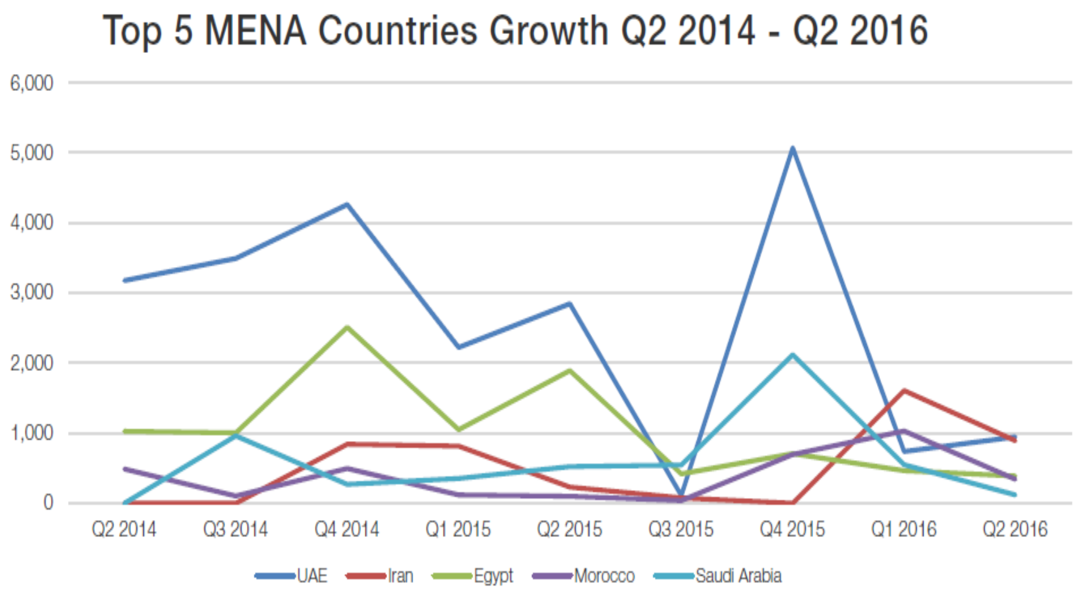


The metals and metal products sector attracted the most value in Q2 2016 with USD 508 million. At this stage it will not be surprise to discover that this amount was injected via a single deal; the Gole Gohar Mining & Industrial Company rights issue, which had a significant effect on overall dealmaking for the quarter in the MENA region. Despite this transaction, aggregate dealmaking for the metals and metal products industry declined by 44 per cent when compared with the USD 902 million injected in the first quarter of this year and was down to a lesser extent from the USD 671 million recorded a year ago, in Q2 2015. Metals and metal products was followed by insurance with USD 280 million, while construction came next with USD 271 million.



Once again, GCC countries held considerable sway over the overall results. The UAE's position at the head of the rankings means this is the second consecutive quarter that a GCC country led the countries field by value; in Q1 2016 Kuwait was the most valuable country, having been targeted in transactions worth USD 6,560 million as it featured in two mega deals worth USD 2,359 million and USD 2,029 million, respectively. This time around the second best-performing GCC country placed fifth overall within the MENA region as Saudi Arabia notched up dealmaking of USD 118 million. Oman and Bahrain placed seventh and eighth, respectively, with dealmaking of USD 94 million and USD 71 million. In stark contrast to its performance in Q1, Kuwait was the second lowest-ranked GCC country by value in Q2, coming 11th with just USD 31 million, ahead of Qatar in 12th with 17 USD million. In line with the overall trend for the MENA region for the quarter, value declined on Q1 for the majority of the GCC regions. The only exception was the UAE, which climbed 28 per cent from USD 738 million in the first quarter to USD 945 million. The biggest decline was reserved for Kuwait, which plummeted from USD 6,560 million in Q1 to just USD 31 million in Q2.

Despite the declines recorded across most of the six countries, 41 per cent of total MENA dealmaking for Q2 2016 was attributable to the GCC regions. In all, they were targeted in deals worth a combined USD 1,276 million. The lion's share of this is attributable to the UAE, which also featured in 27 of the 54 deals with GCC targets. This places the country well ahead of Saudi Arabia, which notched up 8 deals, while Qatar and Kuwait were targeted in six each. Once again, only two GCC countries increased on Q1 in this respect as the UAE improved slightly on the 25 deals signed off in the first three months of the year while Qatar trebled from two to six over the same timeframe. The other four GCC countries all recorded declines in volume quarter-on-quarter.



Having established that a lack of high value transactions has held dealmaking levels down so far in 2016, the natural progression is to ask how things are likely to play out over the rest of the year. Obviously, no-one can predict the future, but if we look at transactions which are scheduled to complete before the end of December we may get some indication of future value levels. At present, only one deal expected to close in the remainder of this year has broken the USD 1,000 million-barrier. That transaction is a USD 1,021 million acquisition of Moroccan cement manufacturer Holcim Maroc by Lafarge Ciments, which was announced in March. This was the third-largest deal to have been signed off in Q1, accounting for nine per cent of total dealmaking for the three months, and is currently scheduled to complete at some point during the third quarter, subject to the green light from l'Autorite Marocaine du Marche des Capitaux. The next largest MENA deal slated for closure by the end of the year is worth less than half of that transaction and is a USD 447 million injection in Samsung Saudi Arabia by Samsung Engineering and Samsung India, who together already own 100 per cent of the business. Proceeds of the deal are to be used for working capital purposes and completion is anticipated by the end of December. In addition, there are deals worth USD 299 million and USD 274 million, which would help push value that bit higher in the coming months if they close on schedule. However, ultimately it looks like 2016's fate will be determined by the size of the transactions which are yet to be signed off and which will be announced in quarters three and four.

It is also worth taking a look at the MENA deal rumours which surfaced during Q2 to see what sort of transactions could be announced in the future. None of the deals reported between the beginning of April and the end of June broke the USD 1,000 million-barrier, so if significant transactions are signed off in the near future they are more likely to come out of the blue. The most valuable rumour over the three months emerged in early April; Gulf Friends Real Estate Company submitted an informal USD 200 million approach for Nafais Holding Company, the Kuwaiti education services provider. This followed an earlier prospective bid by Boubyan Petrochemical, which vendor National Investments Company deemed inferior and will not pursue. The second-largest rumour of the quarter also took the form of an acquisition and involved an undisclosed Saudi Arabian company offering USD 146 million for Egyptian snacks manufacturer Al Jawhara Companies. In our last quarterly article we mentioned a number of high value rumours which emerged in Q1 and it is always worth taking a look at these to establish whether an announcement took place at a later date. As yet the planned USD 1,649 million capital increase by Esfahan Steel Production Company, which would involve the sale of shares amounting to an 86 per cent stake, has yet to take place, despite having already been given the green light by the company's board. No further announcement has been made at this time, meaning this deal could also be signed off in the coming months, which would undoubtedly boost aggregate value for the MENA region significantly. However, the concrete status of this deal is not known and in late June the Financial Tribune reported that Esfahan Steel Company is keeping its eyes peeled for potential buyers as it aims to increase production. According to the publication, majority shareholders have already failed in a bid to sell the business, although a representative of Norin Investment Bank, which is advising on the transaction, said parties in South Korea and Luxembourg are interested in taking a stake. As such, this represents yet another transaction which could be announced over the coming months and although no indication has been given as to how much the deal may be worth, it is sure to have an impact on overall results for the MENA region. In all there were 33 rumours of deals targeting the MENA region which emerged in Q2 2016. Other potential targets include Gulf Navigation Holding, Anton Oilfield Services (Group) and National Petroleum Services Company.