MENA M&A Activity, Q1 2016

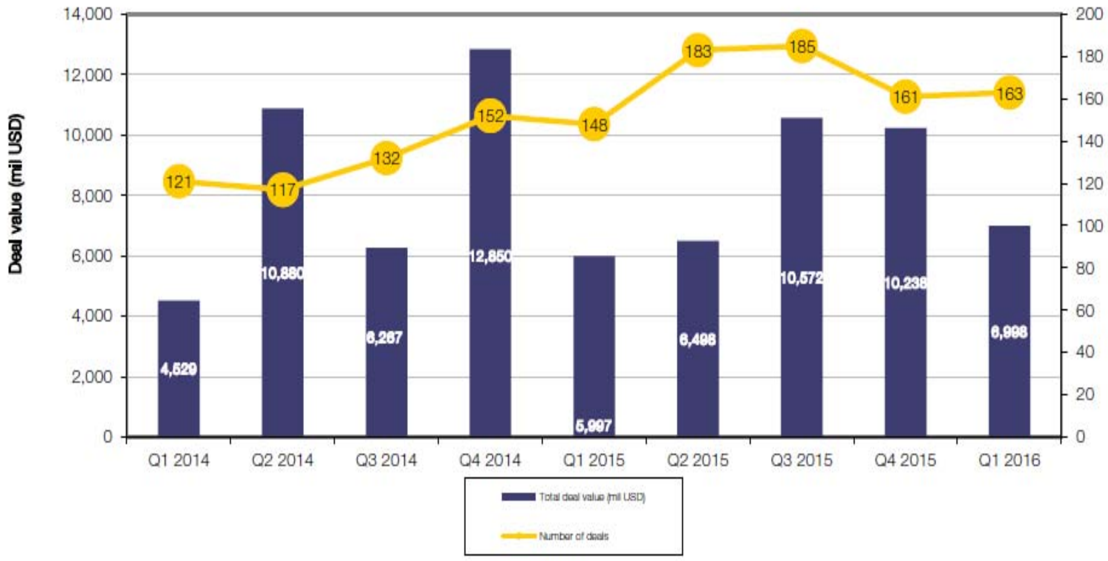
Based on data from Zephyr, the M&A database published by Bureau van Dijk

2016 has gotten off to a fairly slow start in terms of M&A activity targeting companies based in the Middle East and North Africa (MENA). Compared with Q4 2015, value has declined against a slight increase in volume, according to Zephyr, the M&A database published by Bureau van Dijk. In total, some USD 6,998 million was invested across 163 deals in Q1 2016, compared to the 161 deals worth USD 10,238 million announced in the final quarter of 2015. Despite the fairly low aggregate value figure, the result compares more favorably with the same period in previous years. In the first three months of 2015 USD 5,997 million was invested in the region, while in Q1 2014 the figure was USD 4,529 million. Volume also compares well (Q1 2014: 121 deals; Q1 2015: 148 deals). Taking this into account, the decline in value from the final quarter of 2015 can be seen less as a sign of things to come and more as a symptom of the traditionally quiet start to the year. If the last couple of years are any indication, many will be expecting to see an upturn in aggregate values throughout the rest of 2016.

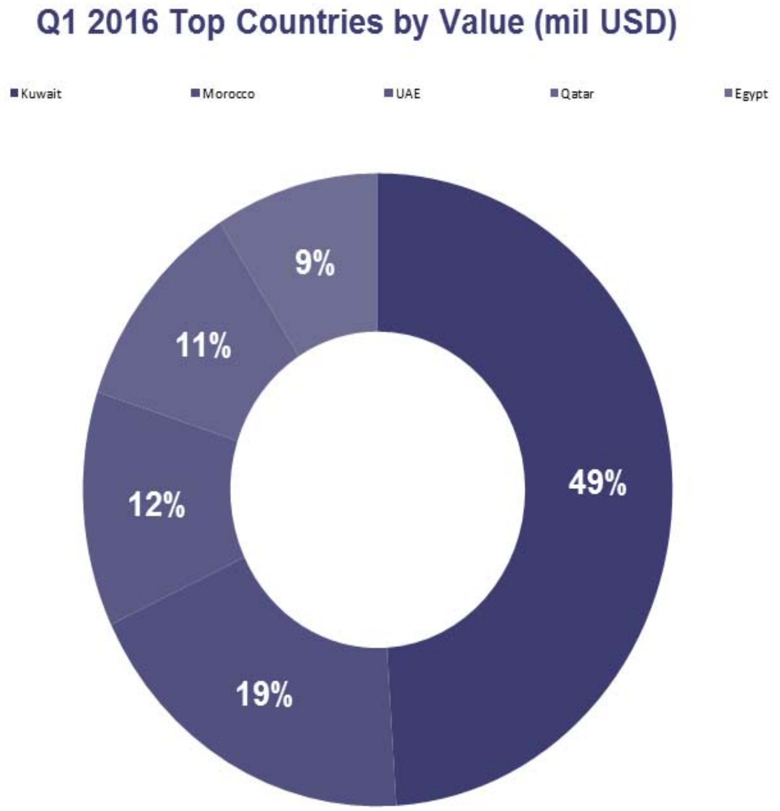
As always, we look to the quarter's largest transactions to explain results for the three months. The relatively disappointing value can be blamed on a lack of high value deals; only two transactions broke the all-important USD 1,000 million barrier between January and the end of March. Nevertheless, these deals did have a significant effect on overall dealmaking for the period. The top transaction is worth USD 2,029 million, representing 29 per cent of total dealmaking for the quarter. It took the form of an 11 per cent stake sale in Kuwait-headquartered Al Safat Energy Holding Company by Danah Al Safat Foodstuff Company. This transaction was worth almost double the second placed transaction, a USD 1,021 million acquisition of Moroccan cement manufacturer Holcim Maroc by Lafarge Ciments which was announced in March.

In all there were 12 deals worth more than USD 100 million announced in Q1 2016. Although these transactions are still relatively large, the absence of more out-and-out "mega" deals has held values down over the three months. If we compare the period to previous quarters it is clear that larger individual deals have a considerable effect on overall dealmaking for a period. For example, Q4 2015 had two significant announced deals, one of which was worth USD 3,200 million, while the other was valued at USD 1,000 million. These transactions together represented 41 per cent of total dealmaking for the quarter. In Q3 2015 just one deal broke the USD 1,000 million barrier, but it was worth USD 8,000 million and accounted for a huge 76 per cent of overall value in the MENA region for the period (although a number of other international assets spanning various regions were also targeted as part of that deal). It is clear that without these transactions, aggregate values for the respective timeframes would have been considerably lower.

Given the aforementioned Al Safat Energy Holding Company deal it is surely no surprise to discover that Kuwait attracted the most value of all MENA countries in the first quarter of 2016. In all the country was targeted in deals worth USD 2,613 million, almost all of which was attributable to this single transaction. This is more than five times larger than its Q4 2015 result, when deals worth USD 510 million targeted the country. Kuwait also received more than double the investment of its nearest rival, Morocco with USD 1,030 million. This figure was again largely attributable to the aforementioned Holcim Maroc deal. The UAE followed with USD 640 million. Although this figure is more evenly spread than the top two countries', it is still attributable to a relatively small number of deals; of the top 25 MENA deals by value in Q1 2016, four have UAE-based targets. These four transactions have a combined value of USD 520 million while all deals targeting the UAE amounted to USD 640 million, down from USD 5,069 million in Q4 2015. The UAE was followed by Qatar with USD 558 million, which represents a significant improvement on Q4 2015, when the country received no investment.

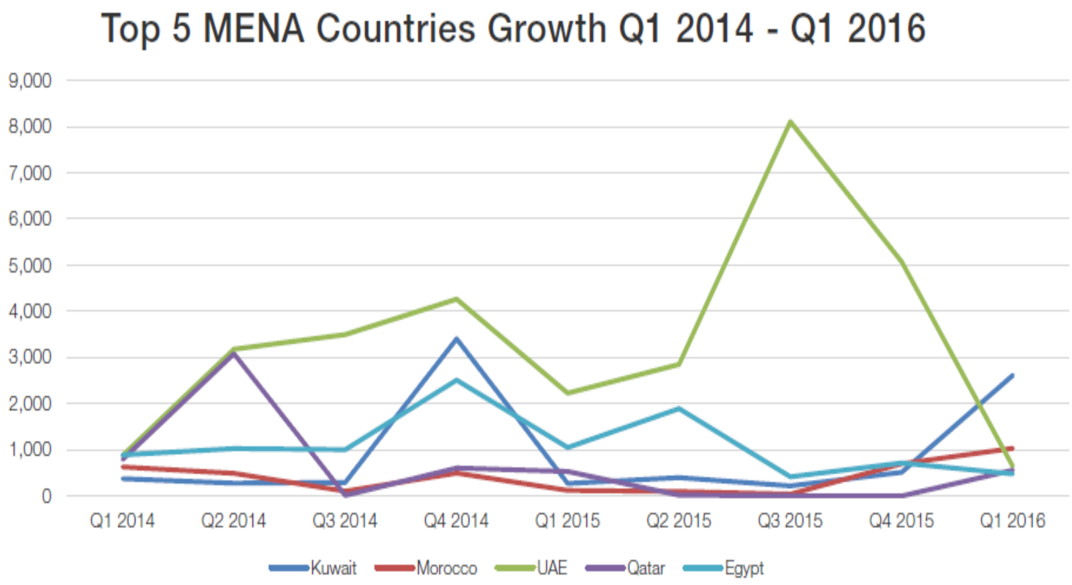


The chemicals, rubber and plastics sector was the most notable in terms of value in Q1 2016. In all the industry attracted USD 1,089 million over the three months, although this is down 71 per cent on the USD 3,712 million invested in Q4 2015. The largest chemicals, rubber and plastics deal of the quarter placed second overall and was the USD 1,021 million Holcim Maroc transaction. Chemicals, rubber and plastics was followed by the insurance industry with USD 841 million, of which USD 558 million was due to a rights issue by Qatar Insurance Company. Other sectors which notched up significant value include construction and banks, which were targeted in deals to the tune of USD 701 million and USD 654 million, respectively.



GCC countries had a significant presence in Q1 2016 as the quarter's top country is a GCC region. Kuwait led the rankings as the most valuable country, with aggregate deal value of USD 2,613 million. The UAE, Qatar and Saudi Arabia also placed highly, coming third, fourth and sixth with USD 640 million, USD 558 million and USD 460 million, respectively. Oman and Bahrain placed ninth and eleventh overall in terms of value. Despite the overall decline in value in the MENA region during Q1, some of the GCC countries actually improved on Q4. Kuwait, Qatar and Oman all climbed over the three months, while the UAE, Saudi Arabia and Bahrain slipped quarter-on-quarter.

In all, 65 per cent of total MENA dealmaking for Q1 2016 was attributable to GCC countries, while 14 of the quarter's top 25 deals featured targets in the six countries, including the top deal. The GCC regions attracted combined investment of USD 4,570 million across 64 transactions, of which 23 had UAE targets while Saudi Arabia and Kuwait had 15 each, Oman had seven and Qatar and Bahrain had two each. In terms of value, the USD 2,613 million invested in Kuwait this quarter represents the country's highest value result since Q4 2014, when it was targeted in deals worth USD 3,402 million. In fact, it is the country's fourth best result since the beginning of 2012 (Q3 2012: USD 2,782 million; Q4 2012: USD 3,292 million). The result comes despite the fact that Kuwait could only place fifth overall within the MENA region in terms of deal volume. This once again highlights the importance of high individual considerations to a country or industry's performance over a quarter.



Obviously the remainder of 2016 is an unknown quantity at present, but we can take a look at MENA deals scheduled to close later this year as an indication of the kinds of transactions we can expect to see over the coming months. Only one "mega" deal targeting a MENA company is currently scheduled to complete before the end of 2016 – the aforementioned Holcim Maroc transaction, which is worth USD 1,021 million and is expected to close during the third quarter of this year. Aside from that deal, the largest pending transaction in the region involves Samsung Engineering and Samsung India increasing their stakes in Samsung Saudi Arabia in a USD 447 million transaction which is scheduled to close by the end of the year. There are also a few significant transactions expected to complete during Q2. The most valuable of these is a USD 310 million purchase of a 40 per cent stake in Lebanon-headquartered commercial bank Credit Libanais by a consortium of undisclosed investors from current shareholders including EFG-Hermes. Closing remains subject to the green light from the Central Bank of Lebanon and is expected to follow by the end of June. Another deal scheduled to complete in the upcoming quarter is worth USD 64 million and involves Greenfields Petroleum International Company upping its share of UAE-headquartered oil and gas explorer Bahar Energy from the current level of 33 per cent to 100 per cent. The consideration will comprise a USD 6 million cash payment while the balance involves the assumption of debts. Completion is subject to regulatory approval. This is merely an indication of the completions we can expect to see over the coming months; new transactions will undoubtedly be announced in due course; in Q2 2015 there was one announced deal worth USD 1,100 million.

Another indication of how things may shape up over the coming months is the list of rumours of deals targeting MENA companies which emerged during Q1. In February Iranian steel products manufacturer Esfahan Steel Production Company said it was planning a capital increase worth USD 1,649 million which would involve the sale of stock equating to an 86 per cent stake in the business. The company's board has already given its seal of approval to the deal. The largest non-capital increase rumour also emerged in February as a consortium of investors known as Adeptio said it would bid for the remaining 33 per cent stake it does not already own in Kuwait Food Company. The consortium made the announcement as it agreed to pick up an initial 67 per cent shareholding. Based on the target's closing share price the purchase of the balance of the company could be worth USD 1,000 million. As evidenced by the results for Q1, if these two deals alone are announced before the end of June they would have a considerable effect on overall deal value for the second quarter of the year. Typically, deals of this size make all the difference to the overall success of a quarter in terms of aggregate deal value levels. In all there were 60 rumoured deals targeting the MENA region during Q1 2016. Other potential targets include Telecommunication Company of Iran, Bahman Group Company, Barclays Bank Egypt and Soltaniyeh Zanjan Power Plant.