MENA PE Newsletter – July 2016

Thursday, August 11, 2016

MENA PE Deal Space – July 2016

Private Equity (PE) deal activity in MENA remained muted in the month of July primarily due to the holy month of Ramadan and holiday season. A similar period of no deal/activity can be observed in the Western markets during the week of Christmas and New Year, where the deal is delayed during this period. However, deal activity is likely to regain pace in the coming months post the sluggishness witnessed during the first six months of the year. On a YTD basis, the MENA region witnessed a total of 27 PE deals worth USD 83.4 million compared to 38 deals worth USD 2,705.2 during the same period last year.

Given the challenges faced in the macroeconomic environment and persistently lower oil prices, PE companies are expected to continue making deals, which will be sector specific as well as with favourable valuations. However, liquidity has become a constraint in the recent times for the companies as traditional lending from financial institutions have become difficult as well as the rejections are on the rise. However, PE activity could thrive going forward as companies turn to alternative financing in such challenging environment. Many family-owned businesses, especially in the GCC region, may also sell assets to raise cash as their cost rises post the removal of subsidies and other uncertainties. While the economic turmoil has impacted the global sovereign investment performance, with average annual portfolio returns having fallen, MENA sovereign investors remain better prepared in terms of investment capability. According to a recent study by Invesco, on average new funding accounted for 3% of assets, while the average sovereign investor withdrew or cancelled only 7% of assets, indicating regional sovereign have been coping rather well with funding challenges. With attention starting to focus on the fast growing economies in the rest of the region, MENA Fund Managers have now started looking at the investment environment in North African markets such as Algeria, Morocco and Tunisia. MENA PE firms are thus expected to conclude a different number of deals, with a wide range of country focus and sector preference in the short-medium term.

The outlook for MENA IPO activity is likely to remain subdued for the remainder of the year unless the sentiments improve significant in the next couple of months. Given the oil prices are expected to hover around current levels, MENA authorities, specially GCC, are making fiscal adjustments to boost their finances through alternative channels. More recently, regional governments are looking to divest stake in state-owned enterprises, specially in the hydrocarbon sector, such as the much anticipated Saudi Aramco IPO and the recent announcement of sales in stake of Kuwait Oil Tanker Company (KOTC) in order to raise funds to ease the financing constraints faced to meet state budgets. Earlier this year, Egypt also announced plans to list shares in state-owned bank and companies on the stock market, in a move aimed at jump-starting investment and boosting economic growth. On a separate note, Governments are also taking several other initiatives, such as Qatar offering a new single-window system that will streamline registrations and make going public easier for a wider variety of businesses.

While IPO exits continue to be challenging, exit transactions are mostly expected to realize through sales to strategic investors. On a YTD basis, a total of nine exit deals worth USD 332.7 million were reported until July 2016 in the MENA region compared to seven exits worth USD 50.2 million made during the same period last year. Country-wise, Egypt witnessed three deals, followed by Saudi Arabia with two exits.

Exhibit 1: PE Deal Value (US$ M) & Volume - 2015

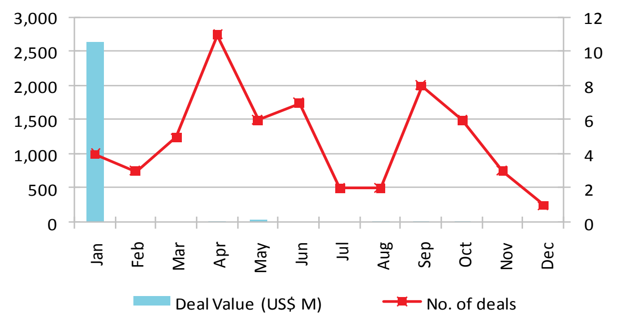
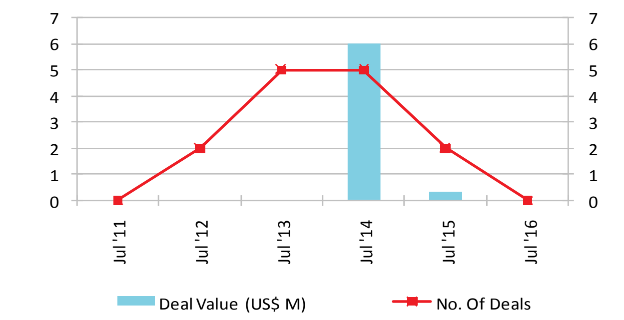


Exhibit 2: PE Deal Value (US$ M) & Volume



Source: Zawya, Thomson ONE Banker, Al Masah Capital Research

MENA PE Deal Space – July 2016

There were no buy deals reported in the MENA region during July 2016.

MENA PE Exit Deals – July 2016

There were no exit deals reported in the MENA region during July 2016.

Kindly note that the Al Masah Capital MENA PE Newsletter for July 2016 also includes some of the deals which went unreported previously in the June newsletters due to delayed reporting by Zawya and Thomson Reuters.

Source: Zawya, Thomson ONE Banker, Thomson Reuters, Al Masah Capital Research

MENA PE News Wrap-up

Saudi Arabia-based fund manager Sedco Capital has been awarded a mandate by Milltrust International to manage a new Middle East and North Africa (MENA) fund. The fund, called the Milltrust Sedco MENA Fund, will invest primarily in companies in the MENA region under the Ucits IV framework and will offer daily liquidity. In partnership with Milltrust, Sedco Capital is the first Saudi based asset management firm to be awarded a mandate to manage MENA & Saudi equities under a Ucits platform. The new fund is being launched as Saudi Arabia begins to open its economy to non-Saudi investors. Sedco Capital currently manages assets across a range of investments in real estate, equities and other businesses with a total under management of about USD 5.1 billion. While Milltrust International is an emerging markets focused asset manager located in London and Singapore whose main clients are sovereign wealth funds, pension funds, banks, insurance companies, corporates, family offices and charitable endowments. Milltrust is regulated by the Financial Conduct Authority of the United Kingdom and its affiliate East India Capital Management is regulated by the Monetary Authority of Singapore. (July 8, 2016)

Gulf International Bank announced the appointment of Mr. Osamah Mohammed Shaker as the new Chief Executive Officer (CEO) of GIB Capital LLC, a wholly owned subsidiary of GIB, effective since 29 June 2016. Mr. Shaker comes with substantial banking experience in both international and domestic financial institutions within the Kingdom of Saudi Arabia. Most recently, Mr. Shaker held the position of Director General of Banking Control overseeing and regulating all the commercial banks in Saudi Arabia and Senior Advisor to the Deputy Governor for Supervision at the Saudi Arabian Monetary Agency (SAMA). Prior to that, Mr. Shaker gained over 16 years of banking and investment experience in the Kingdom with the Saudi British Bank and HSBC Saudi Arabia. (July 13, 2016)

Abu Dhabi's Khalifa Fund for Enterprise Development plans to pump USD200 million into Egyptian market in the coming five years. The money will be pumped in the North African country through Khalifa Fund's strategic partner, Egyptian Social Fund for Development (SFD). (July 17, 2016)

Abu Dhabi Investment Authority (ADIA), one of the world's biggest sovereign wealth funds (SWFs), announced during its recent annual review that it would remain a patient, long-term investor despite a drop in its returns last year due to slowing global growth. In US dollar terms, the 20-year annualized rate of return on ADIA's portfolio fell to 6.5% in 2015 from 7.4% the year before. The 30-year rate of return slipped to 7.5% from 8.4%. The drop was mainly the result of strong returns in the mid-1980s and 1990s falling out of the rolling averages, and the recent returns were consistent with historical levels. ADIA continued to reduce the proportion of its assets managed by external fund managers last year, to 60 percent, by strengthening its in-house capabilities. ADIA invests across more than two dozen asset classes globally, and it is estimated by US-based Sovereign Wealth Fund Institute, which tracks the industry, that the total size of its assets stand at USD 792 billion. (July 20, 2016)

In Lebanon, a new private equity (PE) draft law has been designed to boost the currently lacking ability of fund operators to incorporate commercial entities that are best suited as establishments offering PE and venture capital (VC) avenues. Until date, Lebanese establishments have been functioning with difficulty because they had to rely on holding companies or other conventional formats instead of incorporation as firms with a general partner/limited partner structure. With amendments to the existing arrangements, the Lebanese PE draft law will benefit the country's economic community and more specifically, the group of financial actors that spend their time with the structuring and operations of PE and VC funds. The draft law was accomplished by a team at Alem & Associates that comprised two partners and two associates. (July 21, 2016)

Kuwait-based KAMCO Investment Company signed an agreement to acquire a newly built high quality office building located in Cincinnati Central Business District, USA. The office building serves as the General Electric Company’s new US Global Operations Center and will be acquired for approximately USD 113 million through the Carter real estate investment, development and advisory firm. The investment opportunity in the office building is expected to provide a highly attractive income return, and is projected to yield net cash returns of 6% PA or above during the investment period. As per KAMCO’s Chief Investment Officer, Mr. Khaled Fouad, the acquisition of GE’s US Global Operations Center is in tune with the company’s private equity deals in the global and regional real estate sector. (July 24, 2016)

The Abraaj Group, announced the final close of its first dedicated Turkey Fund at USD 486 million with a further USD 40 million raised for co-investment, against a target of USD 500 million. Abraaj Turkey Fund I (ATF I) received support from a diverse range of new and existing investors. Of the capital committed to the Fund, 70% came from European and North American investors, with institutional investors and SWFs accounting for 78% of the committed capital. ATF I will leverage the Group's on-the ground investment experience in Turkey to capture opportunities presented by strong mid-market growth. The Fund targets well-managed, mid-sized businesses operating primarily in sectors poised to benefit from growing domestic consumption such as consumer goods and services, healthcare, financial services, logistics and retail. To date, ATF I has made two investments, firstly in Hepsiburada, the market leader in the Turkish e-commerce industry, which has five million active customers and a product range of 1.8 million stock keeping units as of this year; and secondly, in Fibabanka AS, one of Turkey's most prominent banks with a strong focus on commercial, corporate and SME customer segments. (July 26, 2016)

Source: Zawya, Thomson Reuters

MENA PE News Wrap-up (Contd.)

Abu Dhabi state investment fund Mubadala will become the largest shareholder of Investcorp after agreeing a deal to acquire 20% of the Bahrain-based alternative investment firm. The purchase comes as Investcorp, with around USD 11 billion of assets under management (AUM), is implementing a new strategy aimed at catapulting it into the top tier of global investment firms by doubling its assets by 2022. Mubadala will buy 9.99 % of Investcorp immediately, and a further 10.01% following regulatory approvals, expected to be completed in around two months. The statement did not disclose the transaction's value, but Co-Chief Executive of Investcorp announced that the valuation was consistent with when an undisclosed Gulf institution paid USD 138 million for a 9.9% stake in September. Investcorp is working on a few opportunities in the US and Europe, including a business services company, one in retail distribution, a consumer goods firm and a company that dealt with staple goods, apart from an investment in Saudi which is also being studied. The firm has been busy in recent months, buying into Italian menswear company Corneliani and cyber security firm Coresec Systems, as well as numerous real estate assets in the US. The acquisition by Mubadala would help strengthen Investcorp's investor base with institutional support, having traditionally been owned by wealthy Gulf families. (July 26, 2016)

MENA IPO News

The Saudi Capital Market Authority Board has amended the level of commission on any buy or sell of equity share transactions by increasing it from 0.120 %, equating to 12 base point or SAR 12 for every SAR 10,000 (USD 2,666.4) transaction, to be 0.155 % which equates to 15.5 base points or SAR 15.5 for every SAR 10,000 of the deal's value. The Board's decision also included the elimination of the minimum commission for any executed order of equity shares with a value equal to or less than SAR 10,000. The decision will take effect on July 17, 2016. The CMA takes this step as part of its continuous efforts to regulate and develop the capital market and apply best international practices which would reflect positively on all market participants. The CMA also announced that it is reviewing current procedures used for collecting fines and penalties on Capital Market Law violators, in order to develop comprehensive mechanisms to compensate those affected when a final decision is made by the Committee for the Resolution of Securities Disputes. (July 3, 2016)

As per Bloomberg, the Saudi Aramco IPO has Investment Banks flocking to Riyadh trying to get a piece of the work involved in the deal. Saudi Arabia has paid out USD 100 million to investment banks in fees during the first five months of the year, a 30% increase and the Saudi Aramco IPO alone should generate roughly USD 50 million in fees. Beyond the potentially USD 2 trillion Saudi Aramco IPO, Saudi Arabia is looking at selling hundreds of state assets in a bid to bolster its finances, reduce its dependence on oil, and create a modern twenty-first century economy. These deals will require not only advisory services on sales and deal structuring, but the sale of potentially up to USD 15 billion in bonds. All of the opportunities are leading many banks to hire new staff and bulk up their relationships in Saudi Arabia. HSBC and JPMorgan Chase are doing particularly well thus far. HSBC is working on the privatization of the Saudi Stock Exchange and the potential split up of the Saudi Electric Co. JPMorgan, HSBC, and Citi will all be involved in the Kingdom's first international bond sale, which could open the door to future business from other Saudi groups. (July 7, 2016)

El Farasha for Printing and Packaging has picked Beltone Financial to manage its planned IPO on the Egyptian Exchange. According to the company's Investor Relations Manager, El Farasha plans to float 25-30% of its shares. The company started exporting 5% of its production recently, but domestically it says it continues to maintain a 40% share of the packaging market. (July 11, 2016)

The government of Kuwait announced plans to sell stakes in state oil producer Kuwait Petroleum Corp's business units, among them Kuwait Oil Tanker Company (KOTC). As per Bloomberg, over the next four years, the government will sell off stakes of 20-30% in the businesses by means of initial public offerings (IPO). As per Kuwait's acting oil minister, the government will keep majority control of the energy companies once their shares have been listed. Stakes in Kuwait Foreign Petroleum Exploration Co and Petrochemical Industries Co will also be sold off. The privatization plan aims to help Kuwait diversify its economy away from oil, while tapping global capital markets for cash to improve efficiency in the industry. KOTC operates a live fleet of 25 crude and product tankers, including 12 VLCCs, plus four 80,000-cbm LPG carriers. VesselsValue.com estimates the fleet's current market value at USD 1.14 billion. (July 13, 2016)

InterCairo Aluminum Industry plans to float 60 million shares, representing 30% of its shares, in the Egyptian Exchange (EGX) in December 2016 after it obtains the EGX's approval to begin the IPO procedures. The company obtained earlier the Egyptian Financial Supervisory Authority's (EFSA) non-objection of the fair value of quoted shares worth EGP 7.13 (USD 0.8), and currently awaits the approval of the EGX's administration after the company submitted all the required documents nearly three months ago. This move aims to provide funding for the company's future expansions and adding new production lines at the company's factories. InterCairo Aluminum agreed for Bloom Securities to take over the financial consultancy of the flotation of its shares in EGX. InterCairo Aluminum achieved a net profit of EGP 1.8 million (USD 0.2 million) during Q1 2016 compared to EGP 8.1 million (USD 0.9 million) in the same quarter of 2015, recording a decline of 78%. (July 17, 2016)

Source: Zawya, Thomson Reuters

MENA IPO News (Contd.)

The Egyptian government has picked the newly-founded NI Capital Company as its advisor for a programme aimed to list shares in state-owned companies on the stock market. Formed in December 2015, NI Capital is part of the state-run National Investment Bank (NIB), tailored for financial consultancies and assets management. Upon the contract signed with the government, NI Capital will provide its consulting services on two phases. The first named the preparation phase will last for three months and will include making an initial list of suggested firms to be listed on the stock market, in coordination with local and international investment banks. The IPO programme seeks to raise the Egyptian bourse's capitalization and encourage local and foreign investors to the market. Some firms operating in the petroleum and banking sectors are on the top of the list in the country's IPO programme. (July 25, 2016)

Qatar leaders are making it easier for enterprises to add themselves to the Qatar Stock Exchange (QSE) with initial public offerings (IPOs) by offering a new single-window system that will streamline registrations and make going public easier for a wider variety of businesses. In the past, companies had to go through the Qatar Financial Market Authority (QFMA). According to new rules, companies will now go directly to QSE's listing department for a process that's shorter and possibly more effective. This move is part of the necessary incremental steps towards encouraging further self-sustaining private sector business, away from oil and gas. Leaders say this might open the door for more exchange-traded funds and other products to get listed on the QSE, which is the second largest exchange in the region. (July 26, 2016)

Source: Zawya, Thomson Reuters

Al Masah Capital Management Limited
Level 9, Suite 906 & 907
ETA Star - Liberty House
Dubai International Financial Centre
Dubai-UAE
P.O. Box 506838
Tel: +971 4 4531500
Fax: +971 4 4534145
Email: Research@almasahcapital.com
Website : www.almasahcapital.com

Disclaimer:

This report is prepared by Al Masah Capital (Asia) Pte Ltd ("AMCA"). AMCA is a company incorporated in Singapore and is regulated by the Monetary Authority of Singapore ("MAS"). The information contained in this report does not constitute an offer to sell securities or the solicitation of an offer to buy, or recommendation for investment in, any securities in any jurisdiction. The information in this report is not intended as financial advice and is only intended for professionals with appropriate investment knowledge and ones that AMCA is satisfied meet the regulatory criteria to be classified as a 'Professional Client' as defined under the Rules & Regulations of the appropriate financial authority. Moreover, none of the report is intended as a prospectus within the meaning of the applicable laws of any jurisdiction and none of the report is directed to any person in any country in which the distribution of such report is unlawful. This report provides general information only. The information and opinions in the report constitute a judgment as at the date indicated and are subject to change without notice. The information may therefore not be accurate or current. The information and opinions contained in this report have been compiled or arrived at from sources believed to be reliable in good faith, but no representation or warranty, express, or implied, is made by AMCA, as to their accuracy, completeness or correctness and AMCA does also not warrant that the information is up to date. Moreover, you should be aware of the fact that investments in undertakings, securities or other financial instruments involve risks. Past results do not guarantee future performance. We accept no liability for any loss arising from the use of material presented in this report. This document has not been reviewed by, approved by or filed with the MAS. This report or any portion hereof may not be reprinted, sold or redistributed without our prior written consent.