

# Services – Driver for M&A in 2008

- A Closer Look



September 2008

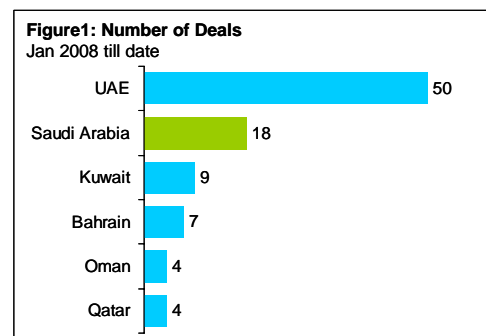


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Investment Banks are flooded with enquires and mandates for M&A assignments in the GCC region. What is this rush all about? Is this a phenomenon driven by rising oil prices or is there a fundamental story of GCC companies which is unfolding? We take a closer look at the completed deals of 2008 to unearth the trend.

It is like a "perfect storm situation" of high levels of liquidity due to high oil prices and the increasing sophistication of the market in the region - including improved regulation and the desire of people to invest more in growing economies of GCC.

A closer look at the deals reveals that Services is the theme for majority of the deals in 2008. Even for manufacturing construction and energy sector, the deals are for the companies engaged in niche services within those sectors like contracting and consulting. Today, there are approximately 10 deals which take place each month with highest in UAE followed by KSA.



For 2008, average value per deal is US\$295mln as compared to US\$299mln for 2007 and US\$351mln for 2006.

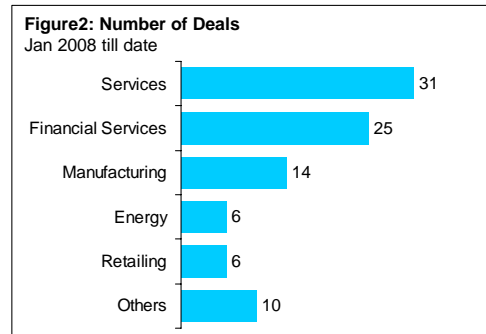
Each company has its own rationale for any merger or acquisition deal. However, some of the common themes that are emerging from these deals are:

- Having strategic advantage over other players
- Expanding regional footprints
- Becoming market leader or gain market share
- Having integration in their business supply-chain
- Improving operational efficiencies
- Being part of the growth story witnessed by the GCC region

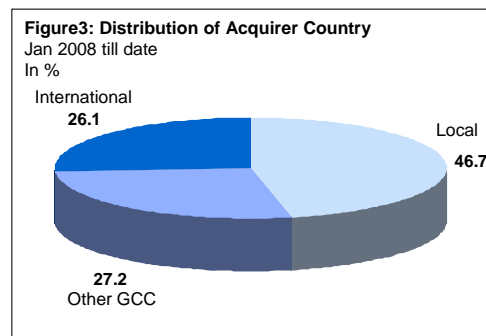
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### Where is the money going?

Overall, Services sector appears to be most attractive which accounted for 33.7% of the total number of deals. This is followed by Financial Services which accounted for 27.2%. However, for KSA, apart from Services and Financial Services, Telecom and Retail are also amongst the top sectors.



Majority of the deals either happen within the home country (46.7%) or with another GCC country (27.2%). The companies are trying to move fast in acquiring market share, expanding regional footprints or integrating their supply chain.



Commercial Bank of Qatar's acquisition of 40% stake in United Arab Bank (UA) for US\$600mln and Saudi Telecom's acquisition of 35% stake in Oger Telecom Limited for US\$ 2.56bln are classic examples of how companies are expanding their regional footprints. Leading property developer Sorouh Real Estate acquired 60% stake in Pivot Engineering & General Contracting Company hoping to protect itself from the tightening of the contractor market.

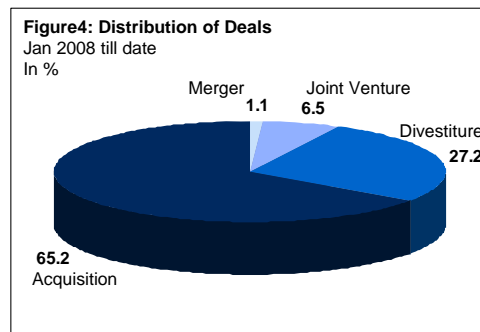
International players account for 26.1% of the total deals, predominantly in the niche areas of Services sector barring few that happened in Manufacturing and Petrochemical sector. For e.g. Swiss major Swatch group acquiring stake in a retailing company Rivoli and another Switzerland based company Kuoni acquiring stake in Desert Adventures Tourism Company. Some of deals were also done to capitalize on the booming construction and contracting business. World's largest steel maker ArcelorMittal, finally entered the UAE market by acquiring 60% stake in UAE-based steel distributor, Dubai Steel Trading Company LLC (DSTC).

International players are keen in increasing their presence in the region as reflected in 100% acquisition of region's largest professional recruitment provider by Manpower Inc., a world leader in the employment services industry and acquisition of Dubai-based Swift Freight International by South Africa's Barloworld Logistics which got attracted to Swift's 46 branches in 21 countries. Two of the prominent deals this year, for international buyers are - acquisition of 25% stake in Doha securities market by NYSE Euronext and acquisition of 51% stake in SIGAS (Saudi Industrial Gas Co.) by Linde group.

Private equity companies have also garnered a sizeable chunk of the market accounting for 18% of the total deals. The sector focus for them was vastly different from other companies. The biggest chunk for them was in the financial sector. Other sectors where they picked up substantial stake are - educational institutions, car rental companies, concrete company, engineering and construction companies, waste water treatment, food and industrial supply, insurance and stake in other private equity companies.

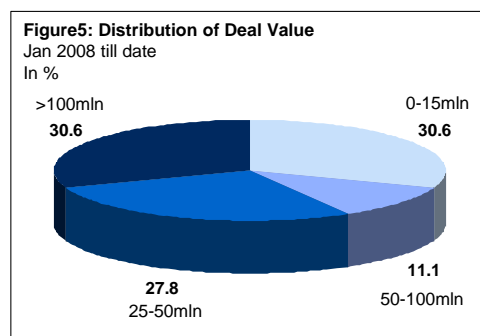
### Is the ownership changing?

If we look at the nature of deals, these are primarily Acquisition of one company by the other which accounts for 65.2% of the total deals. In terms of percentage acquired in target Company, 45.8% of the cases saw acquisition of more than 50% of the shareholding and 33.3% in the range of 25-50% of the shareholding.



### How deep are the pockets?

As far as deal values are concerned, it is often undisclosed. However, for the ones where deal values were available, our analysis suggests that 30.6% of the deals had value greater than US\$100m and 11.1% had the value between US\$50-100m.



GCC and BRIC are the only few economies which have shown some resilience to the global slowdown which make them one of the most attractive destinations for investments. This will keep the deal market hot and it may even get bigger in the coming months.

### Some of the Large Deals

Target Company	Acquirer Company	Stake	\$mIn	Target Country	Target Industry	Acquirer Country
OGER Telecom Ltd	Saudi Telecom Co	35%	2,850	UAE	Telecom	Saudi Arabia
Saudi German Nonwoven Products	Zamil Group Holding Co & Al-Rajhi House En.	15%	765	Saudi Arabia	Retail	Saudi Arabia
United Arab Bank	Commercial Bank Of Qatar	40%	601	UAE	Financial	Qatar
Dalma Energy Llc	Gulfcap FZC	100%	446	UAE	Energy	Saudi Arabia
Bayanat Al Oula	Etihad Etisalat (Mobily)	99.9%	400	Saudi Arabia	Telecom	Saudi Arabia
National Air Service Ltd	Kingdom Holding	30%	313	Saudi Arabia	Telecom	Saudi Arabia
Commercial Bank International	Qatar National Bank'S	24%	302	UAE	Financial	Qatar
Doha Securities Market	Nyse Euronext	25%	250	Qatar	Financial	US

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