



Saudi Arabia's unprecedented growth' set to cement position as M&A leader in 2022



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RIYADH: Saudi Arabia has become one of the most attractive markets for international companies seeking new mergers and acquisitions, and it is set to maintain its position in 2022.

The country's growth stood at 6.8 percent for the third quarter. This is due to rising world demand for crude oil, ambitious Saudi Vision 2030 targets, cutting the Kingdom's dependence on the sale of hydrocarbons through the development of non-oil sectors, as well as advances in fighting the COVID pandemic.

This has helped set Saudi Arabia for continued growth in merger and acquisitions in the coming year.

"The Saudi market is probably one of the most active M&A markets in the region, together with the UAE and Egypt," said Fikry Younis, the Riyadh-based partner of Lumina Capital Advisers.

Economist Robert Mogielnicki from the Arab Gulf State Institute in Washington underlines that the most obvious spaces to watch for M&A activity in Saudi Arabia are the energy and technology spaces.

"Saudi Arabia possesses a comparative advantage in the energy sector and really wants to monetize its energy assets. Technology firms are thriving globally, and Saudi Arabia is pushing to become a global technology hub," he added.

According to Younes, Saudi Arabia is witnessing M&A activity across all sectors, with a focus in social infrastructure — including healthcare, education and logistics — tourism, entertainment and sports, Environmental, Social, and Governance investing and green energy.

There is also significant action in technology which acts as an enabler to other sectors, such as healthtech, edutech, and fintech.

Tourism is expected to account for more than 10 percent of Saudi Arabia's gross domestic product by 2030 through Neom — a \$500bn futuristic city including a nature reserve and heritage sites on islands on the Red Sea alongside a major entertainment and sports project called Qiddiya.

The Kingdom plans to invest more than \$1tn in the tourism sector over the next 10 years.



For Habib Aoun, partner at Broadgate Advisers, if one looks at ranking by deal value, energy and materials remain the most buoyant sectors by far, driven by strategic acquisitions often involving governmental entities such as ARAMCO.

However, looking at deal count, rather than deal size, demand is big for assets in the consumers, healthcare, education and ICT sectors, both from strategic as well as financial investors.

“Saudi Arabia has always been and remains one of the main M&A markets in the region, driven by its large population, numerous government initiatives and the recent recovery in oil prices,” says Aoun.

The expert estimates that in 2021, there were \$44 billion of announced deals in the Kingdom, compared to \$75 billion for the whole of the Middel East and North Africa region including Saudi Arabia.

The largest announced transactions this year were the acquisition of 49 percent stake in Aramco’s Oil Pipeline Co by a consortium led by EIG Global Energy; the acquisition of an Aramco portfolio of gas assets by US-based Air Products and ACWA Power, and the acquisition of a 50 percent stake in Saudi National Petrochemical Company by the Saudi Industrial Investment Group, according to Aoun.

The Saudi British Bank, the HSBC Holdings affiliate, also completed its merger with Alawwal Bank. The year also saw the merger of National Commercial Bank and Samba Financial Group under the name of Saudi National Bank. SNB will be accounting for a market share of 25 percent, with a combined equity of SR120 billion (\$31.96 billion)

Other than those large deals in the energy and materials sectors, there have been notable mid-cap deal activity including the sales of Naturepack Beverage Packaging to Norway-based Elopak; HSBC’s asset management business to Alawwal Invest; Saudi Enaya Cooperative to Amana cooperative, and; Fourth Milling Co. to a consortium of Saudi strategic Agri investors.

In education, King’s College Riyadh — an offshoot of the Dorset King’s College — became the first British boarding school to set up in Saudi Arabia. Additionally, Saudi Arabia’s Tourism Development Fund and London hospitality company Ennismore established a \$400m fund to bring Ennismore’s lifestyle brands to the kingdom.

“Mega deals like the merger between Samba-NCB as well as PIF acquisition of Newcastle United take all the publicity, however, there are many private deals of all sizes that are taking place below the radar,” says Younes.

Without a doubt Vision 2030 is the main driver to the flurry of M&A activity in Saudi Arabia, says Younes.

“One of the core pillars of Vision 2030 is localization of know-how. We have therefore seen many sub-industries across the wider manufacturing spectrum benefit from governmental initiatives — chemicals & materials, pharmaceuticals, etc. Other main sectors that are expected to benefit from Vision 2030 are infrastructure — including telecom, education, tourism — including F&B, and healthcare where investment is needed in order to support the anticipated economic growth. Covid did have an impact of course, mainly during H1 2020, but as is the case globally, most sectors have recovered well in 2021,” adds Aoun.

M&A activity in Saudi Arabia is both inbound and cross-border, agree specialists.

One example is Saudi Arabian companies’ deals with their Omani counterparts worth \$10 billion.

“Within Saudi, investors and family offices are reviewing their portfolios and divesting from non-core assets to redirect funds to expanding core assets,” says Younes, adding: “Cross-border is inbound and outbound where the key word is scaling in Saudi Arabia to capture the opportunities that are being presented as a result of Vision 2030.

“International investors are investing inbound to Saudi in order to benefit from the unprecedented growth, especially with the challenges that many are facing in their home countries: COVID, supply chain challenges, inflation, etc. Local investors who are investing outbound are investing in order to bring expertise and capabilities from abroad to Saudi Arabia.”

For Aoun, forecasts for M&A activity in the Kingdom are upbeat, driven by current oil price levels and the government’s continuous efforts to modernize the country and positioning Riyadh as the financial capital of the region.

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