

M&A Bankers Wanted for Gulf Merger Boom

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It's a good time to be an M&A banker in the Middle East.

Just one month into the year, five banks are merging: a three-way merger in oil-rich Abu Dhabi and a cross-country combination in Kuwait and Bahrain. More deals are in the works.

As oil prices settle at a new normal that's barely enough to balance the budget of Gulf Arab monarchies, governments are engineering ways to stay competitive, prompting an unprecedented consolidation wave. Abu Dhabi, home to 6 percent of global oil reserves, combined three of its investment firms to create a wealth fund with about \$250 billion of assets, shortly after another mega-merger between two of its largest lenders.

It's not only banks that are combining. Saudi Aramco is in talks to acquire Saudi Basic Industries Corp., in what would be Saudi Arabia's largest-ever M&A deal. Insurers, airlines and other petrochemical firms are said to be exploring potential tie-ups.

"There are many potential benefits to consolidation," said Rachel Pether, senior adviser at the Sovereign Wealth Fund Institute. "In the case of the large Abu Dhabi banks and sovereign wealth funds, the main goals are related to economies of scale, scope -- aiding with entry into global markets and increased market share."

The value of M&A deals in the Gulf region jumped to \$33.7 billion last year, the highest level since at least 2007, according to data compiled by Bloomberg.

Merger Mania

M&A in GCC hit the highest since at least 2007 as weaker growth drives deals

Here are the mergers that have been completed or are in the works:

Banks

Regional lenders are undergoing their biggest shakeup in decades, with a dozen involved in takeovers or mergers. Most are heavily reliant on government deposits, and

those have been dwindling in sync with crude prices. At the same time, the six-nation GCC is over-banked with about 70 listed banks in the region, according to data compiled by Bloomberg, serving a population of around 50 million. Although hardly an exact comparison, there are only about a dozen listed banks in the U.K., a country of roughly 65 million people.

- Abu Dhabi's two largest lenders merged in 2017 to create First Abu Dhabi Bank PJSC
- HSBC Holdings Plc affiliate Saudi British Bank in May agreed to buy Alawwal Bank, which was backed by Royal Bank of Scotland Group Plc, in a \$5 billion stock deal
- National Commercial Bank in December started initial merger talks with Riyadh Bank to create a lender with \$182 billion in assets
- Kuwait Finance House, Ahli United Bank: [Story here](#)
- National Bank of Bahrain, Bahrain Islamic Bank: [Story here](#)
- Bank Dhofar, National Bank of Oman: [Story here](#)
- Alizz Islamic Bank, Oman Arab Bank: [Story here](#)

Sovereign Wealth Funds

Abu Dhabi set up a number of sovereign funds to reinvest a windfall from oil. After crude prices slumped, the emirate reined in spending and combined funds with common assets in areas such as energy, financial services and healthcare.

- In 2018, the emirates combined Mubadala and the Abu Dhabi Investment Council to create a wealth fund with assets of about \$230 billion. That came just a year after Mubadala completed a merger with International Petroleum Investment Co. in 2017.
 - "Consolidation among Abu Dhabi state-owned entities should be seen in the context of the government's efforts to make them financially independent of government support," said Krisjanis Krustins, director in the Middle East and Africa sovereign team at Fitch Ratings.
- Qatar overhauled its sovereign fund in 2016, grouping \$100 billion of investments in local companies into a new unit and abandoning the Qatar Holding name synonymous with its highest-profile deals.

Aviation

The U.A.E. is home to four state-controlled carriers, while they still compete with one another, a wave of collaboration among them -- Air Arabia PJSC, the only publicly-listed airline in the country excluded -- started more than a year ago.

- Dubai-based Emirates in October said the airline and Etihad want to increase synergies. Both carriers in September denied they were exploring the idea of combining their airline businesses.
- Emirates and its low-cost sister FlyDubai in July 2017 entered into an expanded code-share agreement intended to pave the way for rationalizing networks and aligning schedules. The partnership has expanded to code share flights to more than 80 destinations. Still, Emirates and FlyDubai aren't planning a full-blown merger, President Tim Clark has said.

Petrochemicals

As governments seek to cut subsidies on things like feedstock and energy, petrochemicals companies are finding that their competitive advantages are being eroded. With 16 petrochemicals firms listed on the Saudi stock exchange, there's plenty of room for consolidation.

- In the kingdom's biggest-ever M&A deal, state oil company Saudi Aramco is in talks to acquire a 70 percent stake in the country's largest chemical maker Saudi Basic Industries Corp.
- Saudi International Petrochemical Co. agreed to acquire Sahara Petrochemical Co. in an all-share deal valued at about \$2 billion. The firms said they expect the merger to cut costs and boost profit.
- Elsewhere in the region, Qatar Petroleum merged two of its petrochemicals units in 2017 as the world's fourth-biggest oil and natural gas producer sought to trim costs in its domestic operations and expand internationally.

Insurance

In Saudi Arabia, insurers are likely to incur increasing costs from tighter regulation and the need to invest in technology, which will drive sector consolidation, according to Bloomberg Intelligence analyst Edmond Christou. Foreign participation in the industry is also likely to grow, as the regulator is actively encouraging foreign investment. There are about 30 listed insurance firms in the kingdom.

- Al-Ahlia Cooperative Insurance agreed to merge with Gulf Union Cooperative Insurance.
- In the U.A.E., Dubai's Takaful Emarat acquired Al Hilal Takaful in 2017.
- The same year, U.S. insurer Cigna bought Zurich Insurance Middle East.

— With assistance by Layan Odeh, and Claudia Maedler