2024

TransAct Middle East Mid-year Update

Regional transformation, localisation and continued investment by Sovereign Wealth Funds drive Middle East M&A activities

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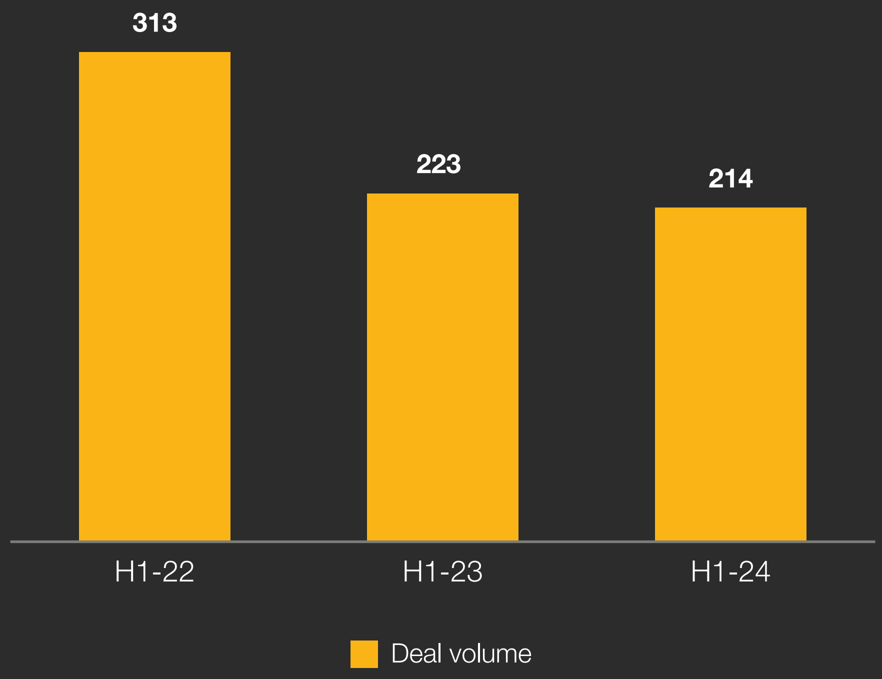
Introduction

The Middle East began 2024 on an optimistic note, with expectations of resilience and growth in the mergers and acquisitions market. This sentiment has been driven by strong investor confidence in the region and a higher projected growth rate than the global average, according to the IMF. Despite a global slowdown in deals, uncertainty about interest rates and market volatility, the region's dealmaking activity has managed to not only weather the storm but, in some cases, thrive amidst it. This highlights the Middle East's unique position in the global M&A landscape.

The region has remained resilient, strengthened by strategic government initiatives focused on economic diversification, green economy initiatives, tech advancements and an emphasis on localisation and value creation. As private equity (PE) deals in the region increase steadily, sovereign wealth funds (SWFs) with ample reserves continue to drive deal volumes and foster growth in emerging sectors. Moreover, voluntary oil production cuts from OPEC+ countries in the last year raised oil prices, supporting diversification initiatives and enhancing market stability in the region, positioning the Middle East as an attractive hub for dealmaking.

Overall, M&A deals in the region in H1-2024 stood at 214 - a 4% decline from H1-2023, compared to a 25% drop globally. This divergence from global levels underscores the Middle East's ongoing resilience, standing out against other regions despite shared macroeconomic challenges and complex geopolitical factors.

Figure 1: Middle East Total Deal Volume (H1-2022 to H1-2024)



Source: PwC Analysis based on Refinitiv (LSEG) data

Regulatory developments in the region have enhanced its investment climate, attracting more investors. Progressive legal reforms in countries, such as Saudi Arabia are encouraging privatisation and private sector growth, creating a favourable environment for strategic dealmaking. In addition, the Gulf Cooperation Council's (GCC) substantial financial reserves, particularly in SWFs, are enabling the region to leverage its capital strength, despite the high interest rates. These proactive policies and initiatives continue to enhance the region's appeal as a dealmaking destination, supporting both domestic and outbound cross-border deal activity.

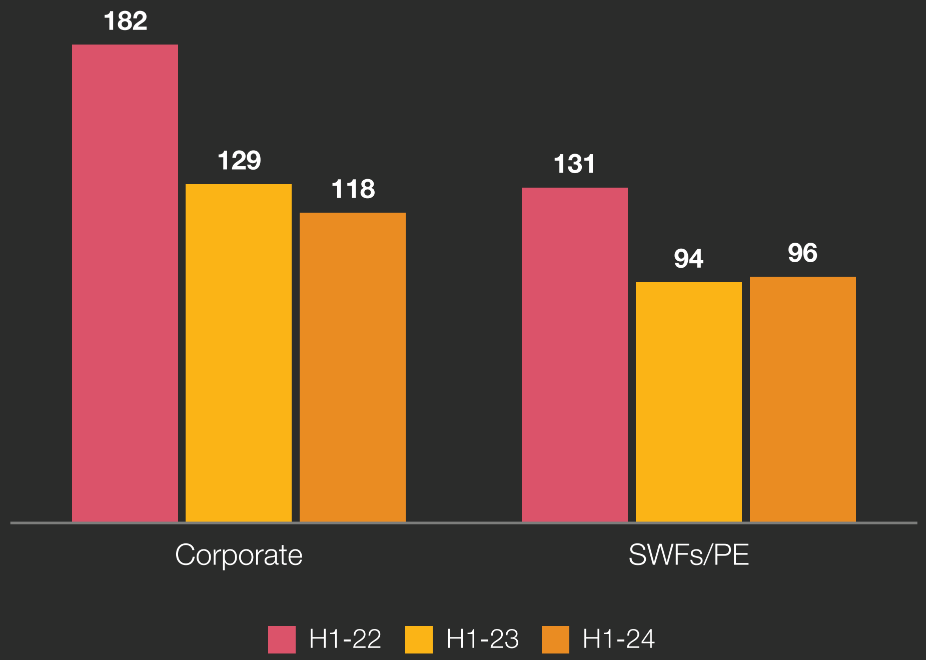
Oil prices have traded within a range of $80-85 during H1-24, down from the 2022 peak of US$120[2], allowing OPEC+ countries to enjoy robust fiscal revenues and pursue more investment opportunities. More recently however, the price of oil has fallen to US$70 per barrel as of early September. While we have not witnessed any near-term impact on deal-making, any prolonged period of lower oil prices could impact investment decision making in the region.

Corporations with ample liquidity dominate the region, accounting for 55% of the total deal volume. However, financial institutions, particularly SWFs and Private Equity firms, remain crucial to sustaining deal activity. Our analysis highlights this, showing a 9% decrease in corporate M&A deal volume, which is offset by a steady 2% rise in deals involving financial institutions (Figure 2). On the one hand, corporations are increasingly placing greater emphasis on creating value and integrating synergies from their transactions, driven by the need to navigate a challenging global macroeconomic landscape and optimise portfolios by acquiring companies that align with their growth and transformation goals.

On the other hand, the region's SWFs have played a significant role in maintaining the momentum of the M&A industry, showcasing the Middle East's increasing attractiveness to investors through their strategic capital deployment efforts.

Initiatives, such as the Saudi Vision 2030[3] and the National Transformation Program are key drivers in Saudi Arabia's economic diversification, opening new M&A opportunities for local and international investors. These initiatives have not only strengthened the private sector and improved the investment environment but have also exceeded targets, fostering tangible growth and enhancing the Kingdom's appeal as a leading investment destination, furthering its economic independence from oil.

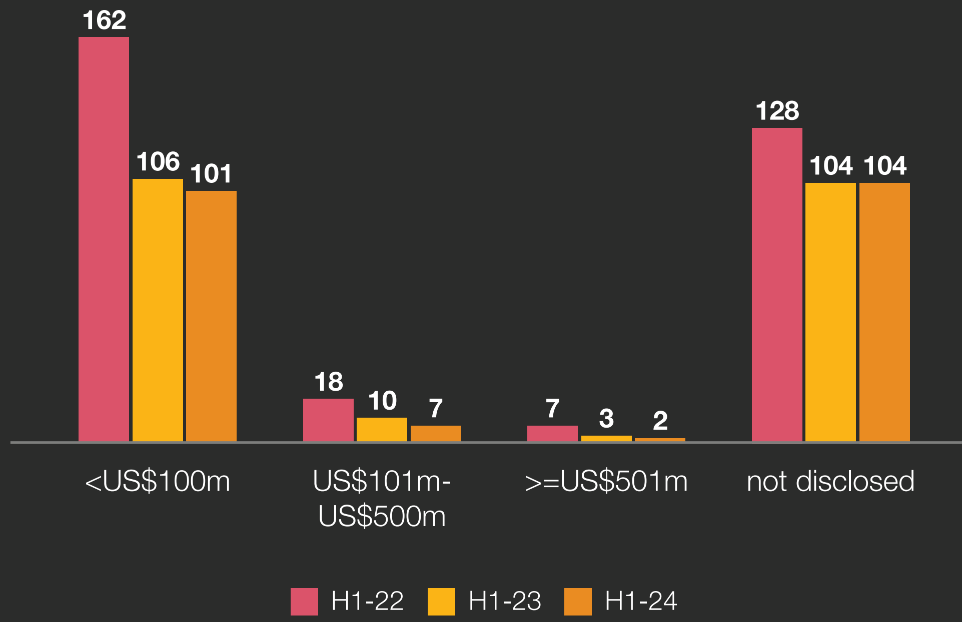
Figure 2: Middle East Deal Volume by Transaction Type (H1-2022 to H1-2024)



Source: PwC Analysis based on Refinitiv (LSEG) data

When it comes to deal size, the region has predominantly favoured smaller transactions (US$100mn or less), accounting for 92% of the disclosed deal volumes in the first half of 2024 (Figure 3). The average deal size has increased to US$58 million from US$56mn in the same period last year, indicating a gradual return of larger deals as the impact of challenging macroeconomic conditions is beginning to ease. Notably, two disclosed deals were valued at over US$1bn, which together accounted for 58% of the total deal value. Further, no megadeals – with values of at least US$5bn were reported, marking a one-and-half-year absence of such transactions in the Middle East. While there is optimism that financing challenges may soon ease with expected interest rate reductions, the current trends in megadeals in the Middle East closely reflect those seen globally.

Figure 3: Number of Deals Breakdown by Values (H1-2022 to H1-2024)



Source: PwC Analysis based on Refinitiv (LSEG) data

2024 mid-year M&A insights

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01 Deal volume defies global downturn, showcasing regional resilience

Deal volume trends in the Middle East for the first half of 2024 indicate a more optimistic outlook among regional investors, contrasting with global trends. While the global M&A industry saw a significant decrease in activity, the stability of the region's M&A landscape was maintained by active PE firms, sovereign wealth funds in Abu Dhabi and Saudi Arabia, and strong corporate dealmaking. This highlights the resilience and the growing appeal of the region's M&A industry, demonstrating its ability to attract investment despite global challenges.

02 Interest in outbound deals persist amid a growing localisation agenda within the region

Outbound M&A activity remains steady in the Middle East, with regional key market players actively pursuing international investments to establish a global presence across various sectors. A notable example is Qatar Airways' recent acquisition of a 25% stake in Airlink, a South African carrier, reinforcing its strategic position in Africa. SWFs are also driving outbound international deals to bring in new technologies, talent and strategic capabilities to support local industries and economic growth.

However, there was a slight decline in outbound M&A activity in H1-24 compared to the same period last year, reflecting the region's intensifying focus on the localisation agenda. As Middle Eastern governments and corporations increasingly prioritise local investments and economic diversification, domestic investment activities are gaining momentum. The trend is expected to continue, as a result of the national agendas, such as Saudi Arabia's Vision 2030 and the UAE's Operation 300bn, underscoring the region's commitment to sustainable, homegrown growth.

03 Positive GDP growth projections and improving interest rates underpin the region's suitability for M&A activity

As economies in the Middle East, particularly the GCC countries, show robust growth forecasts, we are likely to see increased investor confidence. PwC's latest Middle East Economy Watch report highlights that GDP forecasts from the IMF indicate an accelerating growth rate for the wider region to 2.8% in 2024 (up from 2% in 2023) and 4.2% in 2025. This positive economic outlook, combined with the prospects of gradually falling interest rates amid the global easing of inflationary pressures, is expected to further strengthen the region's appeal as a viable dealmaking destination.

04 Disruptive technology set to unlock major deal opportunities

As highlighted in the TransAct Middle East 2024 report most AI technologies globally and within the Middle East are still in their early stages, contributing to investor caution in the technology, media and telecommunications sector. That notwithstanding, we see the region's ambition to become a global technology hub, driven by initiatives such as Saudi Arabia's Vision 2030 and the UAE's National AI Strategy. These initiatives have encouraged a vibrant startup ecosystem that is ripe for acquisition. AI, in particular, is emerging as a key area of interest, with companies and investors recognising its potential to drive transformation across various industries.

05 SWF's and GRE's at the heart of investment activity

Current regional governments and their SWFs have played a crucial role in managing macroeconomic uncertainties. By implementing strategic policies and diversifying investments, they are enhancing fiscal policy and supporting emerging sectors, contributing to the region's economic resilience. Additionally, PE firms are also playing a key role by making strategic investments in sectors with growing consumer demand and strong return potential, even during downturns. With a focus on long-term strategic visions and economic diversification, these collective efforts are creating a robust and dynamic economic environment in the Middle East, strengthening the region's appeal as a prime destination for global investors and deals.

US$2.2bn:

Shareholders of UAE-based Asset Manager, Agility Global PLC, acquired a 49% stake in the company via in-kind dividend distribution amounting to US$2.196bn. (March 2024)

US$1bn:

Al Fajr Capital-led consortium (which includes Emirates Investment Authority, Al Dhow Holding Company, Hanan Investment Company and Wafra International Investment Company) acquired a 65% majority stake in one of the fastest growing healthcare providers in the GCC, Aster DM Healthcare, for US$1bn. (April 2024)

Five largest Middle East M&A transactions in H1-2024

Note: Deals outlined here are based on inbound deals with disclosed values and excludes outbound deals.

US$378mn:

Saudi Arabia's Qassim Cement Company completed the full acquisition of Hail Cement Company for US$378m under a share-swap agreement. (June 2024)

US$338mn:

Gulf Drilling International Company Ltd entered into an agreement to acquire a 100% stake in Qatar's Seadrill Ltd for a total of $338m. (May 2024)

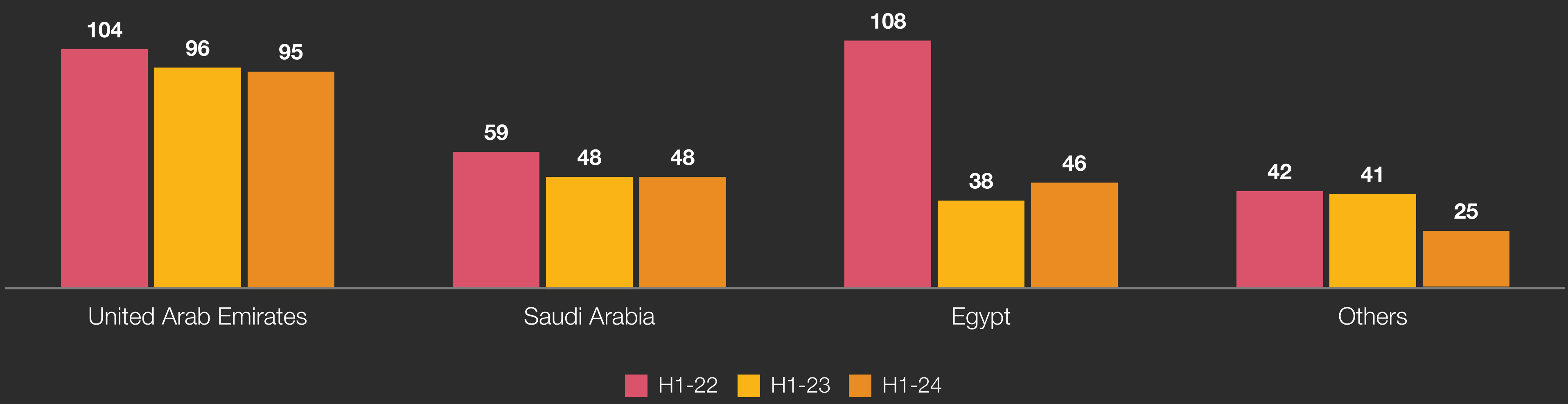
US$800mn:

Egypt-based real estate developer, Talaat Mostafa Group, has through its hospitality division, the Arab Company for Tourism and Hotels Investments (ICON), completed the 51% stake acquisition of seven state-owned hotels located in Cairo, Alexandria, and Aswan for a total of US$800m. (February 2023)

02 Country highlights

Our analysis reveals that in the first half of the year, the UAE, Saudi Arabia and Egypt continued to dominate deal activity in the Middle East, collectively accounting for 189 deals or 88% of total deal volume in the region (Figure 4). The UAE and Saudi Arabia, in particular, continue to be seen as key pillars for deal making in the region, supported by robust economic fundamentals and proactive government initiatives aimed at economic diversification and attracting private investment.

Figure 4: Middle East Deal Volume by Country (H1-2022 to H1-2024)



Source: PwC Analysis based on Refinitiv (LSEG) data

Also in a slight deviation from global trends, we see that the UAE and Saudi Arabia maintained very similar deal volumes compared to H1-2023, while Egypt noted a 21% increase in deals during the same interval, following a significant economic turnaround this year, driven by a US$35bn investment from the UAE, which enabled key reforms like currency liberalisation, helping to reduce inflation. The rest of the region, however, witnessed a 39% decline in deal volume - aligning more closely with global trends.

In the UAE, deal activity was robust across various sectors, such as industrial manufacturing, technology, consumer markets and financial services. The financial services sector recorded the largest deal in the region during the half-year period: a US$2.196 billion in-kind dividend distribution to shareholders by Agility Global PLC, representing 49% of its issued share capital. The second largest deal also took place in the UAE, specifically within the healthcare industry. With real GDP projections of 3.9% in 2024 and even higher non-oil GDP projections on 5.4% within the same period[4], the UAE is well-positioned to continue to drive dealmaking in key sectors within the region.

Saudi Arabia also saw a similar trend across various sectors, including industrial manufacturing, consumer markets, financial services and energy. A key transaction was Qassim Cement Company's US$378 million acquisition of Hail Cement Company via a share-swap, reflecting the ongoing construction boom ahead of the 2030 Expo and the 2034 FIFA World Cup bid. The Kingdom's prominence within the region's capital markets remains strong, with 10 out of the 13 GCC IPOs in Q2-2024 occurring on the Tadawul Main Market and Nomu Parallel. This includes the largest IPO of the period which involved the raising of US$ 763mn by Dr. Soliman Abdel Kader Fakeeh Hospital Company. Additionally, the country accounted for over 61% of total GCC IPO proceeds in Q2-2024.[5] As the country leads IPO activity, it is expected to play a key role in attracting foreign investment and driving further dealmaking in the region.

Meanwhile, efforts by GCC countries to support Egypt's economic recovery and foster further regional stability and growth continue to play out by way of extensive prospective foreign direct investments into the country, highlighting a potential for a further uptick in dealmaking in the country, particularly in the infrastructure and real estate, healthcare, tourism and financial services sectors.

In addition to the anticipated US$ 35bn inflow from Abu Dhabi ADQ's imminent investment in Ras El-Hekma and other prime projects in Egypt, preliminary agreements between the International Monetary Fund (IMF) and Egyptian authorities, granting the country access to about US$ 820mn[6], is poised to significantly reduce near-term external financing risks. This is further supported by the move to a flexible exchange rate and monetary policy tightening initiatives. Collectively, these developments underscore the strength of GCC financial support for Egypt and are expected to create more opportunities for deals.

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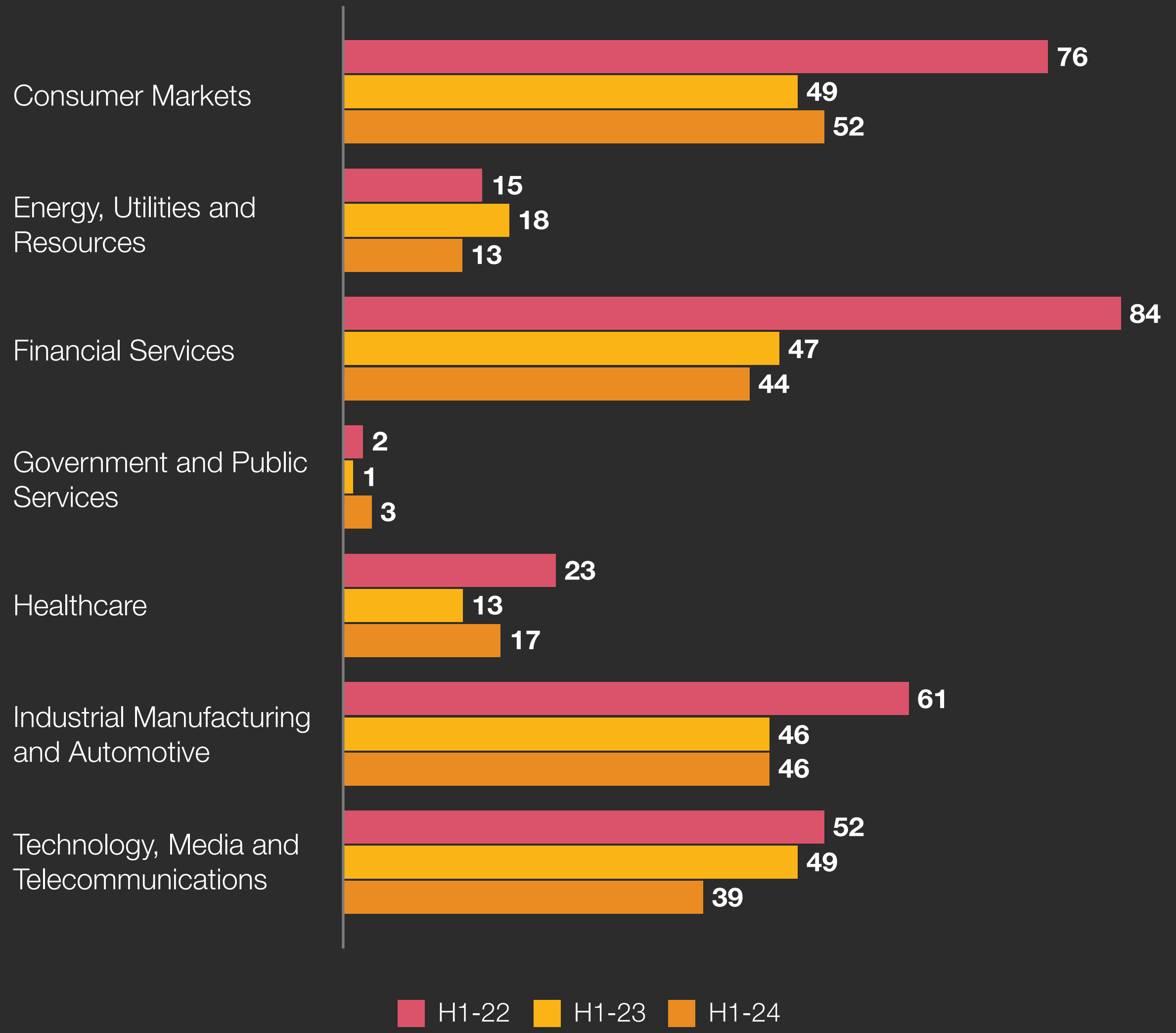
Sector highlights

Consumer markets:

In the first half of 2024, the consumer markets industry in the region experienced several challenges, including uneven inflation across the region, high interest rates and the on-going geopolitical instability, which affected consumer sentiment in the region. Despite these challenges, there is a growing appetite from international large corporations and private equities in the consumer market sector in the region with more deals in the pipeline. This is particularly driven by the momentum of digital shopping which continues to grow in the region with retailers in the GCC increasingly implementing omnichannel strategies to cater to the evolving needs of consumers. This is evidenced by TJX Companies, Inc.'s recent purchase of a 35% stake in Brands for Less, the region's leading off-price retailer, valued at US$1.2 billion.

The food retailing space witnessed the most significant growth in deal activity in the region in H1-24, with nine notable transactions involving key market players. Recent examples include Kazyon, Egypt's largest discount supermarket chain, acquiring a majority stake in Al Dukan Co Ltd, a grocery retailer with over 100 stores, for US$66 million; and Gulf Capital's strategic sale of Amcan, a leading distributor for healthy foods and sports nutrition in the MENA region.

Figure 5: Middle East Deal Volumes by Sector (H1-2022 to H1-2024)



Source: PwC Analysis based on Refinitiv (LSEG) data

Energy, utilities and resources:

Deal volumes in the Middle East are driven by strategic initiatives at both the government and national oil and gas company levels. Saudi Arabia and the UAE are leading the charge in sustainability and green economy initiatives, with the UAE Energy Strategy 2050 aiming to triple renewable energy contributions and reach net zero emissions by 2050.

Qatar's National Renewable Energy Strategy (QNRES) targets 4GW of utility-scale and 200MW of distributed renewable energy capacity by 2030 with a focus on solar PV, While Saudi Arabia continues to advance with the Saudi Power Procurement Company (SPPC) announcing qualified bidders for the fifth round of renewable energy projects.

Other countries, such as Egypt and Oman are also making significant investments in renewable energy and green hydrogen, signalling strong future growth in the clean energy sector, and there are the issuance of new green bonds, such as in Qatar. The Egyptian government signed several MOUs with foreign companies for green hydrogen production and renewable energy investments amounting to $41 billion to be completed over 10 years. And Oman's Hydrom signed agreements worth $11bn to develop two new green hydrogen production projects. These developments suggest that this sector will see significant expansion in the coming years.

Key M&A activity includes Masdar's acquisition of a 50% stake in Terra-gen in the US, from Energy Capital Partners; acquiring a 49.99% stake in 48 solar plants in Spain from Endesa for €0.82bn; and acquiring a 67% stake in Terna Energy in Greece in a €3.2bn enterprise value deal that will involve a mandatory tender offer to acquire all the remaining outstanding shares of Terna Energy.

State owned oil and gas companies remain active, with notable deals such as QatarEnergy acquiring Seadrill's jack-up fleet consisting of three jack-up rigs for $338m, and Enersol, a JV between Abu Dhabi National Oil Company (ADNOC) Drilling and Alpha Dhabi Holding, announcing two further acquisitions in the drilling tech space. These developments highlight the region's dual focus on renewable energy expansion and strategic growth in oil and gas.

Financial services:

The financial services (FS) deal market in the Middle East remained consistent into the first half of the year, adapting to the uncertainties from the macroeconomic environment and the geopolitical tensions. Specific factors impacting the M&A industry in FS include the rapidly growing importance of digitalisation, AI implementation, green finance and sustainability. Also, the uncertainty around the quantum of interest rate cuts which has already been signalled by central banks globally. As organic growth becomes increasingly more difficult, mergers and acquisitions will continue to be seen as a more worthwhile option to companies in the financial market looking to expand and transform their business models. Additionally, divestments are being more commonly used by key market players to dispose of distressed portfolios, reallocate resources and optimise business models.

In the first half of the year, insurance and asset management firms were among some of the most targeted industries. Agility Global PLC, a multi-business operator and investor, distributed a 49% stake as dividends to shareholders, valued at US$2.196.04mn, before pursuing an IPO in Abu Dhabi[7], marking the largest deal in FS and across all sectors.

Industrial and manufacturing

In the Middle East, construction and construction materials industries were dominant, driven by significant investments in the UAE and Saudi Arabia. Environmental and decarbonisation considerations in the manufacturing industry are also gaining momentum in the region, as countries such as the UAE begin to act on their commitments made during the COP28 climate summit held in Dubai towards the end of 2023.[8] Notable among these is the new US$30bn fund to support environmentally conscious projects, further creating opportunities for new deals.

Technology, media and telecommunications:

Technology remains central to various sectors, from AI to renewable energy. The region's continued push towards smart cities, 5G rollout and cloud adoption has led to heightened interest in telecom towers, data centres and digital infrastructure. Governments across the GCC are heavily investing in national digital strategies which creates significant opportunities for the M&A activity in the region. More recently, Saudi Arabia's sovereign wealth fund, PIF, has agreed to buy a majority stake in TAWAL from STC Group.

While global drivers of M&A in the TMT industry are largely driven by software, due to its predictable cash flows they generate, the Middle East saw most of its major deals during the first half of 2024 focused on media and entertainment, an emerging area of interest for regional investors in the region. Although AI and GenAI development is rapidly taking place in the Middle East, notably in advertising and product design teams, it has yet to significantly impact transaction volume, as companies are looking to invest directly in AI instead. To address this, Saudi Arabia is planning a significant US$40 billion fund dedicated primarily to investing in AI technology. In the UAE, Abu Dhabi also recently unveiled MGX, a new fund targeting deals in AI and semiconductors which targets US$100 billion in assets under management through MGX.

Healthcare:

Despite regulatory challenges and rising interest rates, the healthcare and life sciences sector has seen a 30% increase in deal activity compared to H1 2023. The standout transaction of H1 2024 was the sale of a majority stake in Aster DM Healthcare for over US$1 billion to a regional investor group. Egypt, notably, led in deal volume, accounting for 50%, driven partly by significant government-led modernisation efforts and an active private sector.

Healthcare and life sciences remain a priority for SWFs, as evidenced by Mubadala's acquisition of Dubai-based Kelix Bio as part of its expanding sector platform. With sustained, attractive sector multiples, privately-held healthcare companies continue to explore exit opportunities and several large IPOs, such as by Fakeeh Care Group, are expected soon. Continued deal activity across MENA is anticipated as regulatory frameworks evolve and privatisation efforts advance.

Looking ahead

The Middle East's M&A landscape remains resilient as the region continues to attract investment, particularly in key sectors such as energy, financial services, and technology, underscoring its commitment to innovation, sustainability, and long-term growth.

As we progress through the year, improved global macroeconomic conditions could further help accelerate deal momentum, while in the region dealmakers need to adapt to evolving regional dynamics that could significantly impact M&A activities.

Key considerations for dealmakers include aligning M&A strategies with national economic plans like Saudi Vision 2030 and UAE Centennial 2071, and leveraging AI and GenAI technologies for more efficient deal execution. While geopolitical complexities remain, emerging sectors like AI, green energy, and healthcare offer significant growth potential, positioning the Middle East as a dynamic hub for international investment and strategic dealmaking.

About the data

This edition of our TransAct report covers the H1-2024 period ending June 2024. Our commentary on M&A trends is based on data from industry-recognised sources. Specifically, deal volumes referenced in this publication are based on officially completed and partially completed deals – excluding pending and announced deals – with data sourced from Refinitiv as of 30th June 2023 and accessed on 22nd July 2024.

This has been supplemented by additional information from our independent research. To provide a clearer view of the level of deal activity in the Middle East region, the source data was modified to correspond with PwC's industry mapping, and the target nations were mapped to PwC Taxonomy. Furthermore, industry and geography classifications are based on the target company, and all reported amounts are in US$mn.

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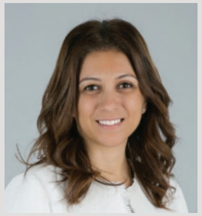

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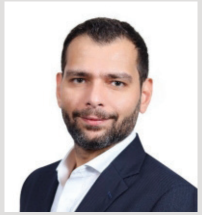

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