



# Post-Crisis Prospects for IPO, M&A and AIM in MENASA

DIFC Workshop 8: IPOs , M&A & Alternative Investment Markets in the MENA Region

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## DIFC Economics workshop 8: Agenda

- Post-Crisis Prospects for PE, M&A and AIM in MENASA
- Looking beyond the financial crisis: Global and Regional IPO Outlook
- **Mergers & Acquisitions – Prospects in MENA**
- Global IPOs - Strategies and Opportunities
- Alternative Investment Market in DIFC
- **Small Companies; Great opportunities**

# World & GCC Economic Growth Outlook: delinking of Emerging Markets from Advanced economies

	2006	2007	2008	2009	2010f	2011f
<b>World output</b>	<b>5.1</b>	<b>5.2</b>	<b>3</b>	<b>-0.8</b>	<b>3.9</b>	<b>4.3</b>
Advanced economies	3	2.7	0.5	-3.2	2.1	2.4
United States	2.8	2	0.4	-2.5	2.7	2.4
Euro area	2.9	2.7	0.6	-3.9	1	1.6
Japan	2	2.4	-1.2	-5.3	1.7	2.2
United Kingdom	2.8	3	0.5	-4.8	1.3	2.7
Other advanced economies	4.6	4.7	1.7	-1.3	3.3	3.6
Newly industrialized Asian economies	5.6	5.7	1.7	-1.2	4.8	4.7
Emerging and developing economies	8	8.3	6.1	2.1	6	6.3
Developing Asia	9.8	10.6	7.9	6.5	8.4	8.4
China	11.6	13	9.6	8.7	10	9.7
India	9.8	9.3	7.3	5.6	7.7	7.8
ASEAN-5	5.7	6.3	4.7	1.3	4.7	5.3
<b>Middle East</b>	<b>5.7</b>	<b>6.2</b>	<b>5.3</b>	<b>2.2</b>	<b>4.5</b>	<b>4.8</b>
Western Hemisphere	5.7	5.7	4.2	-2.3	3.7	3.8

## Real GDP growth (Annual change, %)

Emerging markets have recovered

Most indicators (trade, industrial production) rising faster than advanced countries

	2000-04 avg.	2005	2006	2007	2008	2009f	2010f
Bahrain	5.6	7.9	6.7	8.1	6.1	3	3.7
Kuwait	13.3	10.6	5.1	2.5	6.3	-1.6	3.2
Oman	3.2	4.9	6	7.7	7.8	4.1	3.8
Qatar	8.9	9.2	15	15.3	16.4	11.5	18.5
Saudi Arabia	3.7	5.6	3.2	3.3	4.4	-0.9	4
UAE	7.7	8.2	9.4	6.3	7.4	-0.2	2.4
<b>GCC</b>	<b>5.8</b>	<b>6.9</b>	<b>5.5</b>	<b>5</b>	<b>6.4</b>	<b>0.7</b>	<b>5.2</b>

## GCC/UAE/Dubai: Weathering the storm

- GCC/UAE/Dubai have weathered the global economic and financial crisis
- Policy mix is sound: monetary easing, increased liquidity and fiscal stimulus
- Higher oil prices easing pressure on budget and current account
- Region benefiting from strong trade links with Asia
- Infrastructure, investment and positive demographics will remain key
- Reforms in public finance management and transparency in the use of resources are necessary to efficiently tap the financial markets
- Institutional & Structural reforms required to sustain growth
- Fundamentals are strong to support IPOs and M&A

# Business Cycles, IPOs and M&As

## Stylized Facts

- The number of new IPOs tends to be positively correlated with the business cycle, while M&A activity tends to peak both at the end and at the beginning of the cycle.
- The struggling IPO market combined with a 71% decline in announced private-equity deals in 2009 continue to limit the range of action of funds, buyout firms, family offices and retail investors.
- Current phase: uncertainty & heightened risk aversion means that investors are wary of putting cash into deals or new funds.
- This phase of the current business cycle is more conducive to M&As, because it requires pervasive restructuring.
- An increase in IPO listings/ pipeline isn't necessarily a signal that capital markets have returned to normal.

**Selection Bias: Companies coming to market are the most solid, the ones that have survived the crisis and are expected to build on sound business fundamentals.**

**This means that companies listing in the early phase of the cycle tend to produce outstanding returns.**

# Crisis Lessons: Build & Strengthen Institutional and Market Infrastructure

- **Transparency and Disclosure**
- **Define & Enforce Property Rights & Contracts**
- **Strengthen Protection of Shareholder Rights, particularly Minority Shareholders**
- **Accountancy Rules: rigorous adoption of IFRS**
- **Rigorous auditing: need effective compliance mechanism**
- **Experienced, independent and competent members of the Board**
- **Strengthen Risk Management**
- **Widen choice of financial instruments including Debt & Sukuk market, and alternatives to bank finance, including commercial paper and promissory notes**
- **Develop stock markets tailored for the needs and characteristics of:**
  - **FOEs and**
  - **SMEs**

## Structural Reforms – Insolvency and restructuring

- **Insolvency laws are outdated and inconsistent** with modern business needs. Many countries still view the purpose of insolvency legislation as being limited to winding-up bankrupt companies, **without providing an opportunity to revive them through restructuring.**
- There is a **strong stigma** attached to the use of formal insolvency proceedings. As such, informal proceedings are often preferred leading to lack of transparency
- The courts in many countries lack the **institutional capacity to effectively implement reorganization legislation.**
- There is a need to develop **Special claim financial courts** that would be able to facilitate adjudication of highly technical financial issues, particularly those catering to Insolvency laws
- **Registries**, for both immovable and moveable collateral need modernization
- There is a lack of **Credit Information Bureaus** in the Region
- There is a need to develop **local Credit Rating Agencies** as they can provide a very valuable service to conduct risk assessments and credit ratings for companies and governments.

# Free Zones & Development of SMEs

Development of Clusters resulted in:

- ❑ Liberalization
- ❑ Attracted FDI
- ❑ Induced Competition (no barriers to entry)
- ❑ Transfer of Knowledge, Technology & Management Skills
- ❑ Induced Innovation
- ❑ Increased Productivity
- ❑ Diversification of the Economy

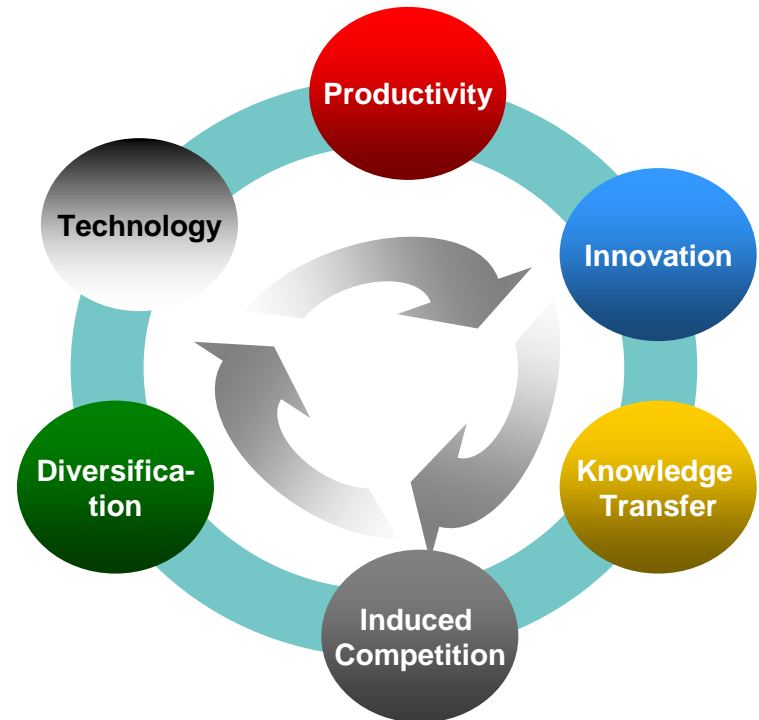
The Result:

**Sustainable Growth and Competitive Advantage**

*Free zones act as “incubators” for new companies that may be smaller in size.*

*Next steps: Creation of an Alternative Investment Market to*

*(a) raise capital for growth; (b) boost a small company’s profile*



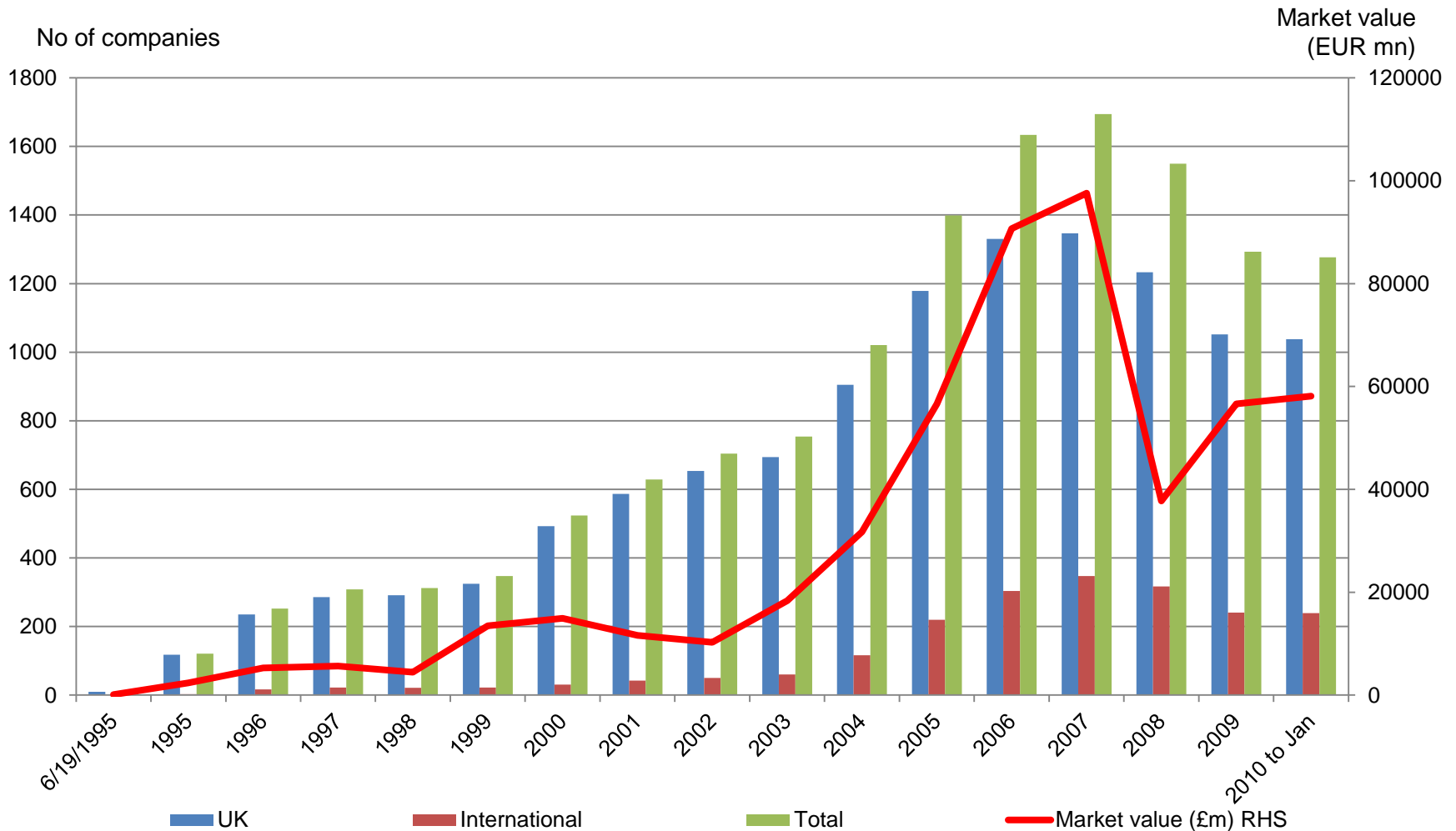


# Alternative Investment- Second Tier Market

## **Second-tier Market:**

- **Exchange-regulated market**
- **Designed for small and mid sized companies**
- **Simplified listing rules and ongoing obligations**
- **Open for companies from all sectors and countries**
  
- **FOEs and SMEs could be major beneficiaries from the development of a second-tier or alternative investment market for the region**

# Size of Alternative Investment Market



## AIM – Top companies by Market Cap (end-Jan '10)

Company	Business sub-sector	Market Capitalisation £m
1 PLAYTECH LTD	9537 Software	1,210.01
2 SONGBIRD ESTATES	8633 Real Estate Holding & Development	1,075.08
3 INDUS GAS LTD	0533 Exploration & Production	868.84
4 AFRICAN MINERALS LTD	1775 General Mining	840.67
5 BANKERS PETROLEUM	0533 Exploration & Production	836.33
6 KSK POWER VENTUR PLC	7535 Electricity	648.83
7 LONDON & STAMFORD PROPERTY LTD	8633 Real Estate Holding & Development	602.50
8 GREEN DRAGON GAS LTD	0537 Integrated Oil & Gas	568.55
9 ENERGY XXI(BERMUDA)	0533 Exploration & Production	556.18
10 EUROPEAN GOLDFIELDS	1777 Gold Mining	550.22
11 COAL OF AFRICA LTD	1775 General Mining	541.39
12 WESTERN CANADIAN COAL CORP	1771 Coal	521.30
13 GULF KEYSTONE PETROLEUM	0533 Exploration & Production	443.43
14 DATATEC	9533 Computer Services	419.65
15 ASIAN CITRUS HLDGS	3573 Farming & Fishing	386.25
16 ABCAM	4573 Biotechnology	385.43
17 EASTERN PLATINUM LTD	1779 Platinum & Precious Metals	380.87
18 DESIRE PETROLEUM	0533 Exploration & Production	367.67
19 PURECIRCLE LTD	3577 Food Products	362.73
20 KALAHARI MINERALS	1755 Nonferrous Metals	353.52

## Bottom line: MENASA IPOs, M&A and AIM

- **Economic fundamentals are strong & supportive of sustained recovery & growth**
- **MENASA increasingly linked to Asia and Emerging Markets**
- **Economic Fundamentals need to be supported by legal and institutional reforms focusing on improved transparency & disclosure and stronger corporate governance in order to support a promising IPO process**
- **Takeover regulations & Insolvency laws and frameworks need to be amended to allow for restructuring, turnarounds and workouts in order to facilitate exits and M&A**
- **A second tier or alternative investment market should be developed tailored for the needs and characteristics of FOEs and SMEs**



***Thank you!***