QATAR

Deal Market Report

Twenty Pine Consulting, LLC

April 2024

Foreword : Designing a sustainable local economy

Qatar has much to offer as a leading energy producer in the world: supportive governmental policies, strategic location, geopolitical soft power, and a growing capital market. Qatar has continuously diversified from its oil & gas sector over the past decade and the efforts can be seen in the country's ever-evolving landscape, expat population and increasing foreign trade and investment.

Two pivotal events have highlighted the necessity for developing a sustainable and robust local economy: the 2017 blockade and the 2022 World Cup. The 2017 Blockade from the neighboring GCC countries showcased strengths of Qatar's diplomatic powers but pressed the need for self-sufficiency. Many incentives were deployed by InvestQatar and QDB to develop local sectors such as manufacturing and agriculture.

The World Cup brought Qatar to an international spotlight. How to capture and continue with the momentum remains the question. The goal is to develop and grow a self-sufficient and efficient economic environment where redundancies are cut, and high-performing companies are given incentives to thrive.

Subsequent border opening in 2022 and interest rate hikes from multiple central banks in the world proved difficult for some companies to manage, given they grew quickly and protected in a "walled garden" of 2017-2022. Sectors that were heavily reliant on governmental development programs for funding such as agriculture, hospitality, and manufacturing were particularly hit with lower growth rates and rising costs with influx of expensive raw materials and competition from abroad. In conjunction with governmental agencies such as QDB, local companies should consolidate under strategic leadership to create conglomerates adapt for the unique economic environment of Qatar and its position in the world.

In this report, we examine the overall trend in the GCC region for funding activities and how Qatari firms can benefit from the growing MENA market. We provide an overview of the Qatari Capital Market and examine case studies in Qatar and the GCC region for M&A and IPOs. We also examine why M&As are pertinent in the post-World Cup era and how the asset management and financial industries are evolving in the region.

Key Findings

Qatar's investments in the capital market and venture market continue to grow.

Challenges in supply chain and cost management since 2022 can be addressed through consolidation.

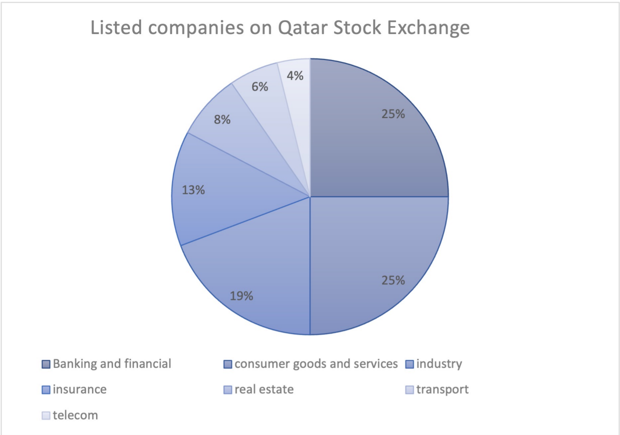
Overall GCC capital market is poised for growth in deal-making activities, providing a favorable environment for Qatar's inbound/outbound deals.

With supportive government incentives, entrepreneurship in Qatar can thrive.

Joint Ventures will help export readiness for Qatari firms in a global market.

Capital Market in Qatar

Qatar hosts a vibrant stock exchange, with over QR579bn in Market Cap. As of March 2024, the stock exchange had 52 companies listed, with 13 in the banking and financial services sector; 13 in consumer goods and services, as well as 10 in industry; 7 in insurance; four in real estate; three in transport; and two in telecom. Availability of numerous indices including an Islamic Index, all share indices and ETFs show depth and growth of the Qatari capital market. Qatar is the region's second-largest equity market.



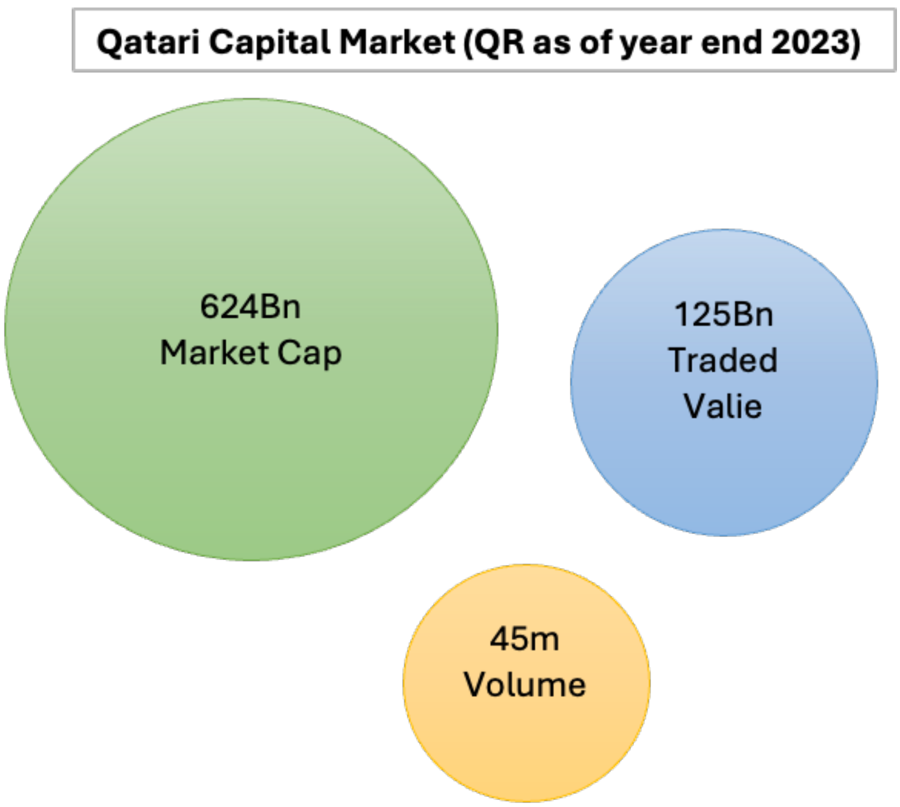
"At QFC, we foresee a continued emphasis on the development of local capital markets, which will in turn expand opportunities for promising Qatari financial institutions. While the initial emphasis will be honed on the needs of local corporates and public sector entities, Qatari capital markets will soon be able to cater to international investors as well as our New Emerging Belt Initiative partners."

YOUSUF MOHAMED AL-JAIDA
Chief Executive Officer & Board Member at QFC

Source:Qatar Capital Market Report 2020, Qatar Stock Exchange

Recent law allowing up to 100% overseas shareholding in listed companies demonstrate a continuing encouragement of international investment. Diverse investment product offering combined with friendly regulations helped attract foreign investments. The *Securities' Lending and Borrowing Rules allows* the long-term investor to benefit from the owned securities by lending them, but also allows the borrower to benefit from price fluctuations in the markets.

"QSE and QDB share the common goal of supporting the success of small and medium-sized companies and their economic contribution to the national economy, in line with the strategy of economic diversification as outlined in the Qatar National Vision"



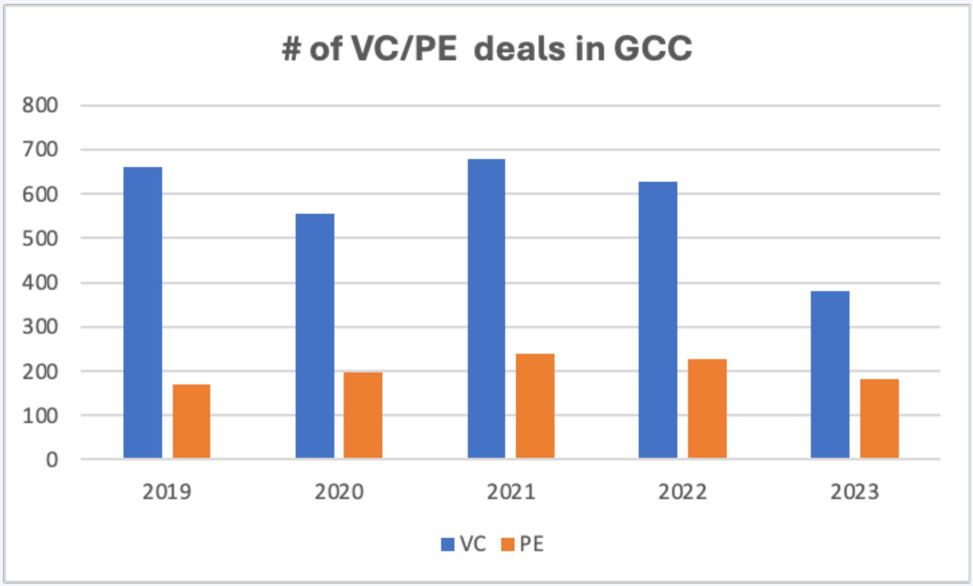
Source: Qatar Capital Market Report 2020, Qatar Stock Exchange, Peninsula Qatar, QDB, Qatar Tribune

Qatari Venture Market

In 2021, the Qatar Stock Exchange (QSE) opened the Qatar Equities Venture Market (QEVM) with lower minimum paid-in-capital limit and shorter track record required to list. Three companies have listed on the QEVM since the launch.

In 2023 alone, QR43m were invested in venture capital deals, accounting for 23% of total deals in 2023. Qatar maintained a 17% compounded annual growth rate in investments and a 10 % growth rate in deals in the past 5 years. In 2023, QDB participated in an acquisition of Smit.fit, India-based digital health via Droobi Health, a diabetics management platform to form DroobiSmit.

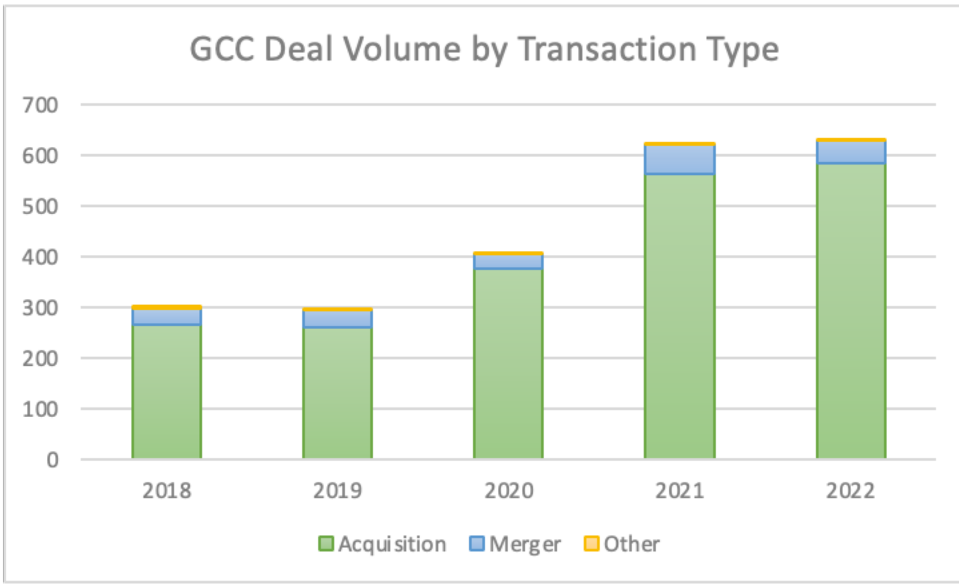
Continued growth in VC investments in Qatar stands out in the region, which saw overall decreased in VC deal volume in 2023.



Source: QDB Venture Report 2023, PWC Transact 2023

GCC Region

MENA region's funding activity slowed down in 2023 in the backdrop of higher interest rates and geopolitical tensions. The region held up better than globally, which saw 47% decline in funding. The region accomplished the majority of 556 deals valued at $83.2bn in 2023. Qatar remained 5 of the most transacted countries in MENA with QDB at the forefront backing 3 of the 5 biggest deals in the country in 2023.

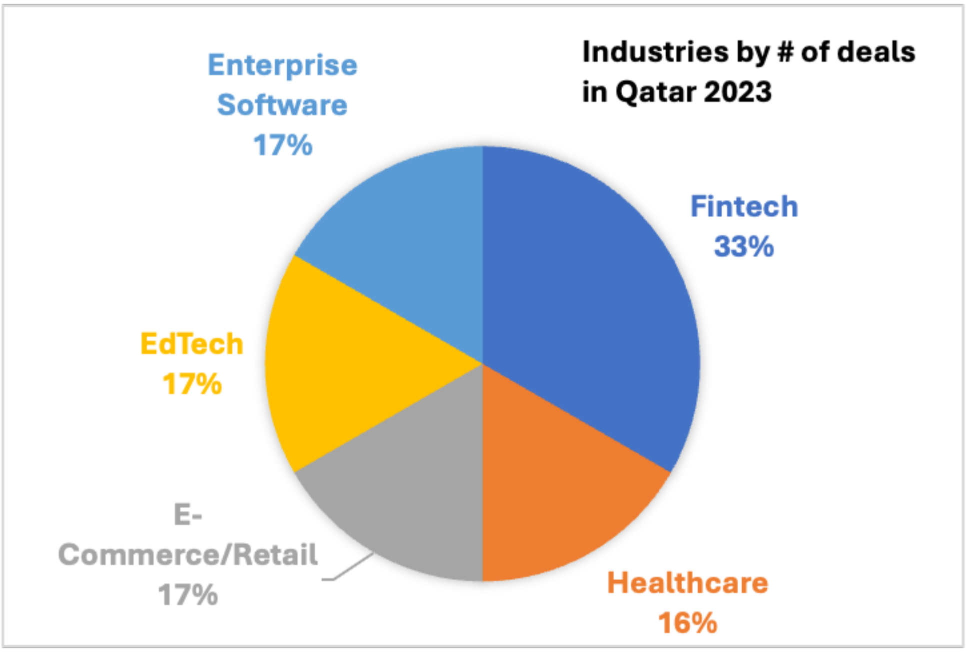


Source: Refinitiv

Consolidation in construction, energy and technology sectors was the common theme in the region. Abu Dhabi's ADNOC Group acquired a 50% stake in Fertiglobe for $3.7bn last December to advance its chemicals and energy transition strategy. Aldar Estates, a property and facilities management company, acquired FAB Properties for a combined contract value of Dhs2.5bn. Abu Dhabi's aggrotech firm Silal acquired a majority stake in UAE's food and beverage distributor, SAFCO Group, creating supply chain efficiencies in the food and beverage sector. Abu Dhabi-based geo data and analytics firm Bayanat agreed to merge with Al Yah Satellite Communications, creating an AI-powered space technology firm with a market capitalization of more than Dhs15bn in an all share swap deal recently.

Source: Gulf Times

In Saudi Arabia, Public Investment Fund (PIF) continued to make strategic M&A deals to consolidate fragmented sectors. PIF acquired a 30% stake in Tamimi Markets Company, one of Saudi Arabia's biggest grocery chains. In metals and mining sector, PIF acquired AlRajhi Steel and Hadeed, and acquired the metals unit of chemicals maker Saudi Basic Industries Corporation (Sabic) for $3.3bn. PIF also invested $1.3bn in four local construction companies, including Nesma & Partners Contracting Company and AlBawani Holding Company, to scale up capacity in the sector and improve supply chain management.

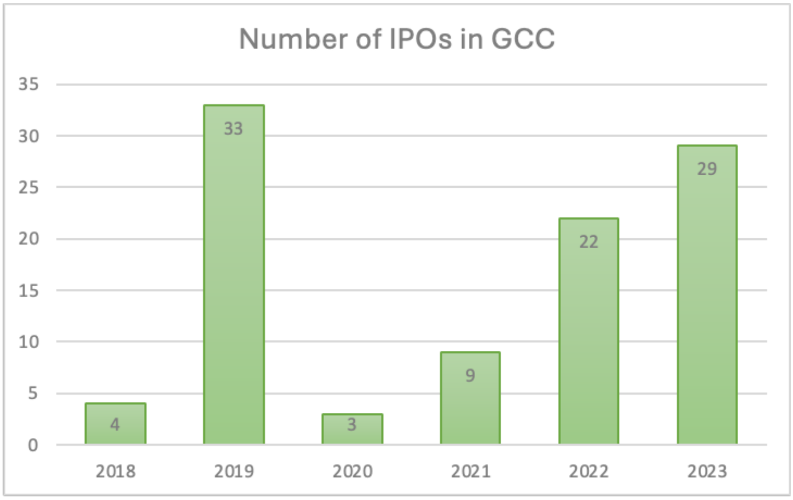


Activities in Qatar also reflected the trend in deal making in the technology sector and consolidation in key industries. Cross-border dealmaking volume also picked up. Competition to create regional powerhouses through consolidation drove M&A activities. Key sectors of interest are construction, infrastrcture, logistics, health care, and technology.

Source:Bain and Company2023 report, Gulf Business, Arab News, EY MENA M&A Insights H1 2023, QDB Venture Market Report 2023

Initial Public Offerings (IPOs)

The GCC region also continues to see a strong pipeline of Initial Public Offerings, standing out globally in all listing activities. Initial Public Offerings are attractive financing options in the high interest rate era where debt servicing costs have increased significantly. IPOs allow companies to tap into the domestic and international market.



IPOs on the Qatari Stock Exchange lower the reliance on foreign debt-financing, helping to achieve one of the objectives of Qatar's first *Strategic Plan for Financial Sector Regulation* to encourage local companies to raise funds from the domestic market. Number of successful company listings show positive direction in terms of attracting trading volume and liquidity. Baladna IPO in December 2019 raised US$395.6 m in capital. In 2020 QLM Life & Medical Insurance offered 210m shares worth $180m in the country's first IPO since 2019 and the MENA region's third-largest offering of the year. The Qatari exchange has also seen delistings, such as that of Al Khaliji Commercial Bank following its merger with Masraf Al Rayan in December 2021.

Source: Oxford Business Group, PWC, Norton Rose Fulbright

Why Mergers and Acquisitions

M&A activities are particularly well-suited for local companies to survive and thrive in the overhang of immense development financing and incentives. M&A serves as a remedy for prevailing market challenges.

COST MANAGEMENT.

THE BLOCKADE HIGHLIGHTED THE HIGH PRICE OF RAW MATERIALS IN QATAR.

CONSOLIDATION OF FRAGMENTED SMES.

IDENTIFY PROFITABLE AND HIGH-GROWTH POTENTIAL COMPANIES IN PERTINENT SECTORS

VERTICAL INTEGRATION

WILL CREATE NOT ONLY COST-EFFICIENCIES BUT SYNERGIES ACROSS AFFILIATES.

FINANCING AND CREDIT SOLUTIONS

FOR INTEGRATED COMPANIES ARE CHEAPER AND EASIER TO ACCESS.

THE INCREASED BRAND VALUE

OF SUCCESSFULLY INTEGRATED LOCAL CONGLOMERATES BOOSTS EXPORT POTENTIAL.

Key Sectors that would benefit from consolidation and capital market restructuring are the following:

Food and Beverages

The combined impact of COVID and the blockade showcased the need for local agricultural source and distribution channel development. The successful case of Baladna as a dairy provider of Qatar shows made-in-Qatar can become economically viable solutions if costs are taken into consideration rather than only focusing on the locally sourced aspect.

Hospitality

The boom in hotel developments and openings in the past decade has left lower occupancy rates during non-international event hosting times. Lagging hotel occupancy rates compared to neighboring GCC countries highlight need for a strategic vision for the sector. Tourism is expected to grow on average 10.7% for the next decade. Consolidation of the smaller share sectors in hospitality – such as regular apartment units and ½ star hotels would boost revenue per available room due to decreased competition and better pricing algorithm.

Manufacturing

Consolidation of manufacturing SMEs will boost domestic and international competitiveness. In addition to providing locally sourced products, Qatari manufacturers can become engines of diversification for the economy. Qatari manufacturing companies face challenges in managing cost and maintaining working capital requirements. Supply chain management and export readiness are key areas of improvement in the sector.

Local companies can leverage stock market listing, M&A, joint ventures, divestments, and refinancing options available in Shariah compliant measures to consolidate and solidify their financial position and accelerate their growth. Fostering the Qatari capital market through such activities align with Qatar's national vision 2030 in diversifying from fossil fuel income and creating value locally.

Source:Bank Audi

M&A Case Studies

Successful M&A deals in Qatar have provided increased value to shareholders. These case studies examine each deal and how it has created efficiency and value for the investors and the industry.

Case Study 1: Food and Beverage Sector Merger through all-share combination

Gulf International Services (GIS)' merger of Amwaj Services, Shawab Abela Catering Services Co, and Atyab Fruits and Vegetables. The Merger was an all-share combination of Amwaj with in-kind contribution from two new incumbent strategic merging shareholders (who are 100% joint owners of Shaqab & Atyab) – Tamween Capital W.L.L. and Abela Qatar International W.L.L.

With the objective of creating a catering power player, the merger created a strong presence and brand identity within Qatar and the region. This deal accomplished :

- Consolidation of client base
- Strong brand building
- Elimination of fragmented market
- Integrated structure providing operational efficiencies through economies of scale
- Strengthening in internal labor, logistics and operations
- Cost synergies through lower unit cost

M&A Case Studies

<u>Case Study 2: Islamic Banking Sector Merger</u>

Masraf Al Rayan‘s legal merger with Al Khalij Commercial Bank. Masraf Al Rayan’s capital increased from QR7.5 bn to QR9.3 bn, and Al Khaliji shareholders received 0.5 ordinary shares in Masraf Al Rayan as consideration for every ordinary share held. First merger of publicly listed banks in Qatar, creating one of the largest Shariah compliant banks in the region with over QR182 bn in total assets. With a robust capital position, and strong liquidity, the bank is in a prime position to accelerate Qatar’s journey towards Vision 2030.

- Integration of customer base and liquidity & balance sheet
- Boost to brand image and strength in the relatively niche Islamic banking sector. Many potential markets to be served from not only GCC but also in Central Asia and SE Asia . The industry remains relatively small but demand for Shariah-compliant investments is growing
- International expansion through integration of overseas operations

Masraf Al Rayan is also in negotiations for sale of its shares in Ci San Trading. Ci San Trading is a Joint Venture between Masraf Al Rayan and Aamal. Ci-San Trading Company invests across various sectors and currently holds ownership in two subsidiaries: Gulf Rocks and Aamal Maritime Transportation Services. Consolidation in business to core-sectors will strengthen the balance sheet and competitiveness.

Source: Masraf Al Rayan Investor Relations, Peninsula Times

M&A Case Studies

Case Study 3: Energy Sector consolidation to a national conglomerate

The merger of the world’s largest LNG producers, Qatargas and RasGas, to Qatargas, with parent company Qatar Petroleum (QP) in 2018. The combined company handles all of Qatar’s 77m tons of LNG export capacity annually sold through a mix of joint venture agreements with oil majors including ExxonMobil and Shell.

- Integration of the two companies’ resources and capabilities to create a truly unique global energy operator in terms of size, service, and reliability (a global oligopoly)
- Savings of roughly QR 2bn ($548 m) in operating costs annually

With strategic M&A activities, Qatari companies can develop into global players with increased brand value, synergies and vertical integration. The positive impact on balance sheets and loan books of local banks will promote local capital markets as well.

Source: Gulf Times

Islamic Financing Solutions

Shariah compliant solutions can also facilitate financing and swift deal execution. Below are some of the islamic financing options available:

Murabaha Structure can be used for leveraged buyout given low leverage ratios (typically under 33%). Commodity Murabaha can be tapped for financing acquisitions.

Two Kuwaiti investment groups - Investment Dar and Adeem Investment Company - utilized Murabahah commodity financing for a leveraged buyout of Ford by Aston Martin. 60% of the agreement was financed through contributions equity, and the remainder through a GBP225 m loan using Murabaha facility. The deal was refinanced in February with an eight-year GBP225m syndicated loan, again based on Murabaha

Bai Salam : traditionally used to provide working capital but can be used for acquisition financing.

The acquisition by the Infrastructure and Growth Capital Fund and Abraaj Buy-Out Fund II from the Egyptian Urea Petrochemical Company was partially refinanced by a capital syndicate using the principles of the Bai Salam structure, where the purchase of a future supply of urea by investors agreed with the Egyptian Urea Petrochemical Company appointed by financiers to sell urea supplies on their behalf. This is refinancing the US dollar and the return on financing refers to LIBOR plus a fixed margin.

Musharakah: partnership structure in which the parties agree to share in any business/project losses according to their initial investment but can agree on the profit-sharing mechanism.

Refinancing conventional debt with Shariah compliant debt is also an option.

Asset Management

Growth in IPO issuance and M&A activities will help local asset managers. Bigger players in Qatar include Qatar National Bank, Doha Bank, Al Rayan Investment and QInvest. Qatari asset managers are regional leaders in Shariah compliant asset management, which the recent merger of Al Rayan and Al Khaliji Commercial Bank Strengthened.

Al Rayan investment manages the Al Rayan GCC Fund, the world's largest Qatar-based mutual fund and largest equity GCC fund. It has also launched Qatar's first Islamic ETF, making Al Rayan the manager of the world's largest Islamic equity ETF. The Al Rayan Qatar ETF tracks the performance of the QE Al Rayan Islamic Index of Shariah compliant stocks traded on the QSE. It is the world's largest Islamic equity ETF and the largest ETF in the GCC.

Growing interest in the GCC capital markets will necessitate a regional powerhouse asset manager that can service the muslim population of the region and in the world. With strategic consolidation and M&A, local financial institutions in Qatar are uniquely positioned to service the region and its investors.

Pension Funds

85% of Qatar's population is expatriate and migrant workers. Immigrant populations' earnings are currently mostly untapped into local financial markets. Most earnings are expatriated and eroded in remittance fees, but when put to work they can generate liquidity and pump blood into the local asset management system. Developing a private pension system for expatriate workers can help manage and grow the immigrant workers' benefits all the while taking advantage of Qatar's growing asset management sector.

For example, the Dubai International Financial Centre (DIFC) introduced its Employee Workplace Savings Plan (Dews) in 2020 as a defined contributions plan for expat employees.

Qatari pension funds and schemes can utilize Shariah compliant local ETFs and mutual funds to increase liquidity in the market and promote the local economy.

Source: Qatar capital market report 2020, Al Rayan Investor Relations

Going Forward

A high degree of economically effective entrepreneurship is also promoted in M&As as integrated companies are aggressive in launching new products, new product lines, buying and merging with existing corporations and entering new domestic and international markets.

Qatari companies can adapt locally nurtured and home-grown technologies through programs like QDB's Fintech Accelerator and Doha Tech Angels (DTA), meanwhile exploring joint ventures.

Joint Ventures with globally established firms is an expediant way to integrate high-tech roles and to grow in global reach. Prime cases include smart construction and aggrotech from South Korea and Taiwan, fintech and payment solutions from India, and AI/Blockchain solutions from North America.

About Us

Founded in New York by entrepreneurs and wall street veterans, our firm focuses on tailor made deal advisory and strategy consulting.

Our North America operation specializes in project finance, structure finance, illiquid fixed income instruments and technology venture capital. Notable transactions include :

- Acquisition of minority stake in Texas owned fertilizer arm by OCI Orascom for $3.6bn
- Sale lease back of PEMEX assets to KKR infrastructure for $1.2bn
- Johnson Control spin-offs of its automotive battery business to pension fund of Quebec for $13.2bn
- Various minority equity investments in stage agnostic technology companies

Our UK and Switzerland offices focus on capital market and trading activities; London team specializes in private debt instruments such as CLOs and listed European blue-chip stocks. Geneva team's core activity is commodity trading.

20 PINE CONSULTING LLC

Jean Jacques DANDRIEUX, co-founder and managing director, has been investing in the Qatari Startups ecosystem since over a decade ago, and has always been a deep believer in the strengths and achievements of the Qatari economy.

Licensed under the Qatar Financial Center, Twenty Pine Consulting aims to leverage our local and global experiences to provide deal advisory service, acting as a bridge between East Asia and Qatar.

Our local team members also include a dedicated sovereign wealth fund specialist from BlackRock Asset Management. Our team has collaborated on investments with QIA and other global Official Institutions such as ADIA, Korea Investment Corporation, Kazakhstan National Fund, and many others.

Professionals with collective experience over 80 years and Industry relationships spanning 5 continents, we identify and source lucrative business opportunities for our clients. Whether it is mergers and acquisitions, structured debt, capital market joint ventures, or strategic partnerships, we assist in connecting our clients with suitable prospects, facilitating negotiations, and structuring favorable deals.

We provide restructuring activities to make local companies more competitive, to reorganize their activities with a macro approach to bring solutions for the businesses in Qatar.

We also have dedicated team members covering South Korea, China, France, the United Kingdom and the United States and sit on the board of a smart construction company in South Korea backed by Hyundai Construction.

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