

Subject : Private Equity in the MENA Region – Tremendous Prospect for the Taking!
(Third Part)

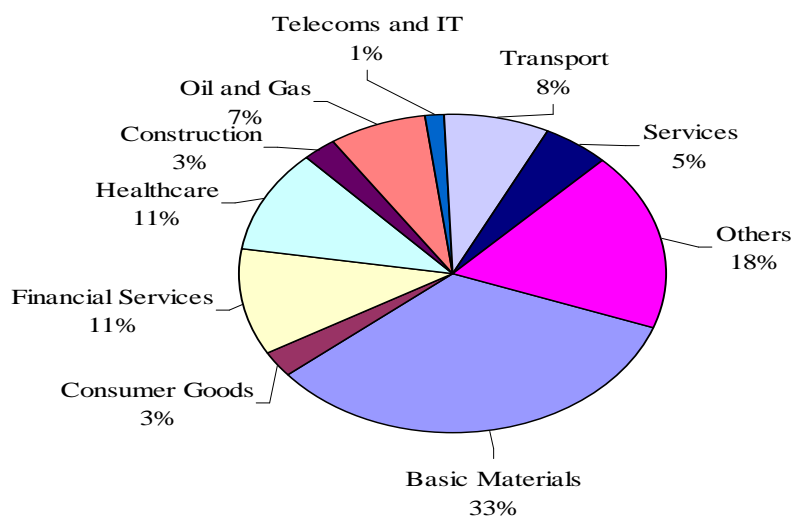
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•**Global** : Private Equity: Shift in investment focus away from oil & gas to service-based and consumer-oriented businesses

Global Investment House – - Kuwait - Private Equity in the MENA Region – The spending power of the region’s growing middle class is influencing a shift in investment focus away from oil & gas to service-based and consumer-oriented businesses. During the period from 2007 till 1H-2008, investments made were highest in the Basic Materials sector with a total of US\$1,422mn worth investments. It was followed by Healthcare sector (11% of all investments) followed by Financial Services (11%), Transport (8%), Oil and Gas (7%) and Services (5%) sectors. Basic materials sector was again influenced by the US\$1.4bn investment in Egyptian Fertilizers Company. As the economies and population of the region will grow, social infrastructure needs in healthcare and education will increase and these will be the sectors that private equity players would look for.

Chart 1: Sector focus of Private Equity Investments in MENA region (2007 – 1H-2008)



Source: Zawya Private Equity Monitor

Some of the key sectors to look out for would be:

Energy: Companies engaged in Exploration and Production, gas handling and transportation etc. are attractively positioned to benefit from increasing private sector participation in mid-and downstream oil sector with a total of US\$300bn spending in oil/gas infrastructure. The sector is projected to grow significantly with gas production expected to increase by 8% in the next five years in the Middle East. Emerging market demand for Petrochemicals/Fertilizers and Aluminum will drive gas production. MENA Oil/ Gas offshore services market size is US\$7.5bn and is expected to grow to US\$12.5bn by 2012 at a CAGR of 10%.

Health Care: Healthcare and Pharmaceuticals continues to grow at a high rate with rising health care spending in the region. Factors like population growth (at a higher rate than Europe or US). Mckinsey estimates Healthcare spending to increase at a CAGR of 10% up to 2025. Currently MENA Healthcare is characterized by low private sector penetration which currently stands at 25% of total expenditure. This is expected to increase with increased private sector participation. Introduction of mandatory medical insurance for expatriates and private sector employees in Saudi Arabia and UAE with other countries also expected to follow, just adds to the growing potential in the sector.

Education: Higher education especially in developing the technical skills which will help in the development of small and medium enterprises. Current GCC general education market size is estimated at over US\$3.0bn including Saudi market size of US\$1.5bn. Young population and rising standard of living is driving the need for quality education and with low private sector participation, the sector offers an attractive proposition. With the private sector participation in Saudi on the uprise and growing at 6.5% as against 3% in government sector, the market offers attractive opportunity.

Financial Services: The financial sector in the MENA has largely been insulated from the mortgage crisis in United States with mortgage finance still evolving in GCC. Most product categories/markets, consumer segments remain fragmented and immature and fundamentals look attractive. Ongoing industry transformation provides scope for M&As, recapitalization and restructuring. The sector offers relatively lower risk with a proven path for exit multiple expansions.

Retail/ Consumer Goods: Driven by increasing purchasing power and low retail penetration, the retail spends going forward are expected to rise. Retail companies, especially those with franchises for foreign labels in any retail activity, are expected to offer good growth potential and with increasing population and lifestyle improvements the prospects look bright. Saudi Arabia, UAE and Egypt have good potential for growth.

Transport – Air: MENA being centrally located between Asia and Europe enjoys geographical advantage with Dubai fast emerging as a Global hub in Air transportation. Growth rate is high in the region with international arrivals growing at 13% and revenue per passenger kilometer growing at 20% in 2007 is highest in the world. With high levels of capital expenditure in between US\$25-30bn in airport expansions expected in the next few years, this sector too offers attractive investment opportunity for PE players.

Logistics: The sector is expected to ride on the on-going project & infrastructure investments and impending retail boom in the region. Companies with established region-wise network and presence all across the supply chain are expected to benefit.