

J&A Capital Markets Report

Investments in Industrials, Energy, and Resources by Investors in the GCC

July 2024

Gulf Cooperation Council (GCC) investors deployed over \$800 billion into the industrial, energy, and resource sectors between 2020 and Q3 2023.

The GCC is strategically pivoting away from oil and gas dependence, driven by the goal to promote long-term economic resilience, counteract fluctuating oil prices, and embrace sustainable development. Initiatives such as Saudi Arabia's Vision 2030 is one example of the region's commitment to diversification, fostering innovation and sustainability while building robust, knowledge-based economies.

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Jaydon Burrell is a member of the investment banking team at J&A. Originally from South Africa, he holds a master's degree in finance and investment banking from the University of Johannesburg. Jaydon has a background in portfolio and investment management and has received education in both Hong Kong and South Africa. Additionally, Jaydon holds the Series 63 and Series 82 licenses as a private representative.



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Joshua Jahani is a managing director at Jahani and Associates. He is based in the New York City office. He leads the firm's global expansion and client service activities. He has been featured in over 20 publications such as the BBC, Newsweek, International Business Times, NBC, and more about investment banking and global trade. Joshua is a lecturer at Cornell University and New York University.



RESOURCES

Companies that extract, process, and resell natural resources, including minerals, metals, timber, and agricultural products.

MINING AND
PRECIOUS METALS

FORESTRY

AGRICULTURE



INDUSTRIALS

Companies that provide tangible assets used in the manufacturing, construction, and production of goods and services.

CONSTRUCTION AND
ENGINEERING

AEROSPACE AND
DEFENSE

MACHINERY AND
EQUIPMENT



ENERGY

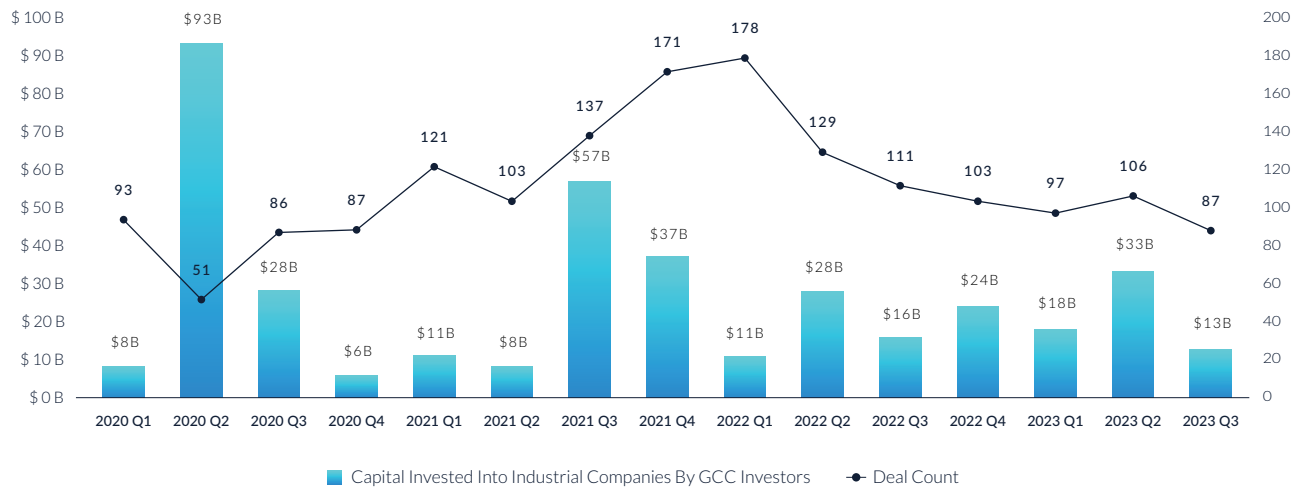
Companies that provide power utilities such as electricity as well as petrochemical mining, refining, and distribution.

OIL AND GAS

RENEWABLE ENERGY

UTILITIES

Announced Industrial Transactions by GCC-based Investors (Q1 2020 – Q3 2023)

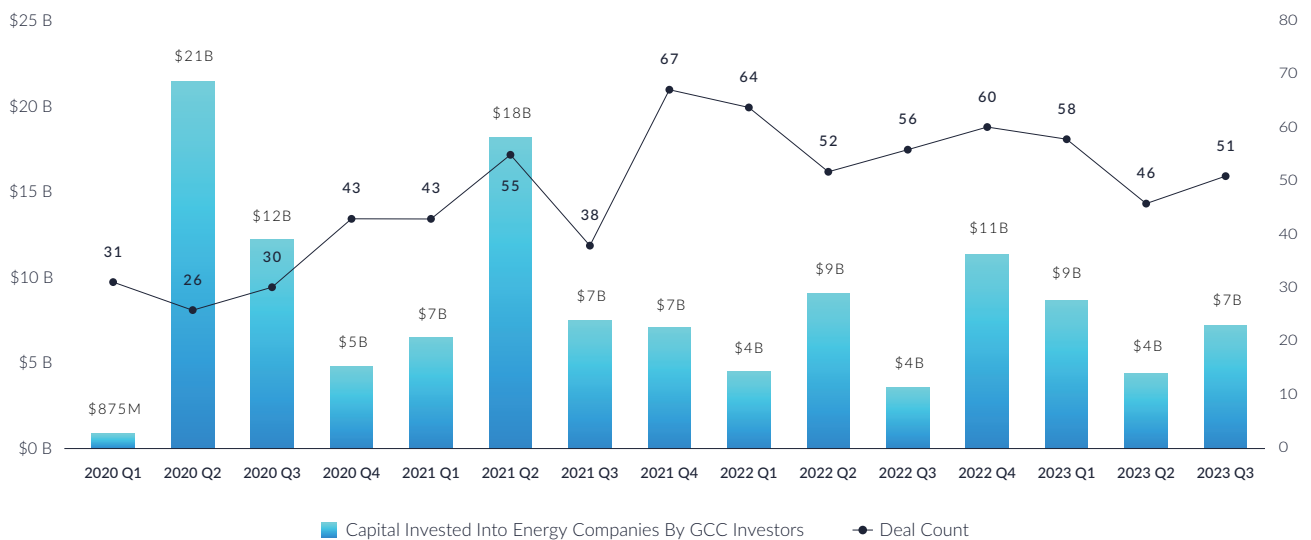


Source: PitchBook Data, Inc.

- Between Q1 2020 and Q3 2023, approximately \$390 billion was invested into industrial companies by GCC investors over 1,660 deals. The average deal size in the sector was nearly \$250 million.
- There was a significant spike in capital invested in Q2 2020, reaching \$93 billion. This period coincides with the early stages of the COVID-19 pandemic, where there was heightened economic uncertainty, and investors were likely seeking to capitalize on distressed assets and critical infrastructure projects that required substantial capital but involved fewer transactions.
- Deal count for the period peaked in Q1 2022, reaching 178 deals, despite a relatively lower capital investment of \$11 billion. In spite of active deal-making, the industrial sector saw smaller-scale investments by GCC investors, leading to the relatively low total capital deployed. This trend reflects investors' strategic shift towards smaller deals amid the geopolitical uncertainty, high inflation, and looming interest rate rises, whereby companies focused on mid-market deals to leverage their healthy balance sheets for strategic acquisitions, avoiding the risks associated with larger transactions.
- There was a notable decline in capital investment from Q1 2022 to Q3 2022. This drop could be related to macro-economic reasons like tightening of global monetary policies, including the rapid increase in interest rates by the US Federal Reserve, which affected market liquidity and investor sentiment.
- The first two quarters of 2023 saw a resurgence in both capital investment and deal count, with a notable peak in Q2 2023 at \$248 billion and 138 deals. This resurgence can be linked to the continued high oil prices, fiscal surpluses, and active government initiatives that the region leveraged to support economic diversification and industrial development in the GCC through increased investment in the industrial sector.



Announced Energy Transactions by GCC-based Investors (2020 – Q3 2023)

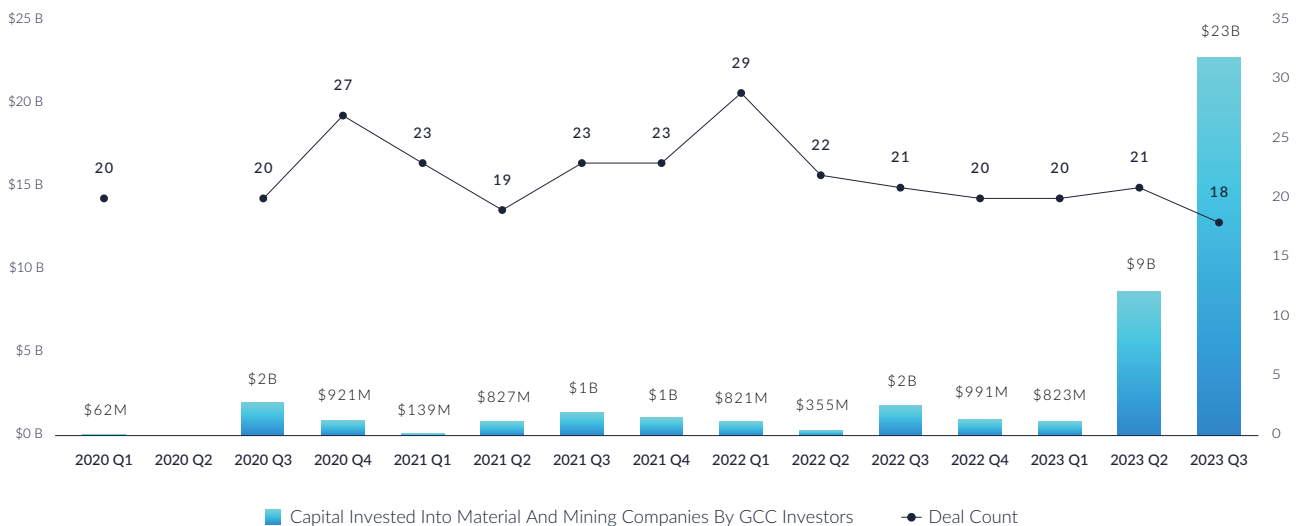


Source: PitchBook Data, Inc.

- Between Q1 2020 and Q3 2023, approximately \$128 billion was invested into the energy sector by GCC investors. The average deal size was approximately \$177 million.
- The capital investment peaked at \$21 billion in Q2 2020, despite a relatively low deal count of 31. This significant investment amount can be attributed to large-scale strategic acquisitions and projects initiated in response to the early stages of the COVID-19 pandemic. The energy sector likely saw substantial government interventions aimed at securing and stabilizing energy supplies during uncertainty.
- Another notable peak occurred in Q2 2021, with capital investment reaching \$18 billion across 55 deals. This spike aligns with the global recovery phase from the pandemic, where oil prices began to stabilize and increase, leading to renewed confidence and investment in the energy sector.



Announced Material and Mining Transactions by GCC-based Investors (2020 – Q3 2023)

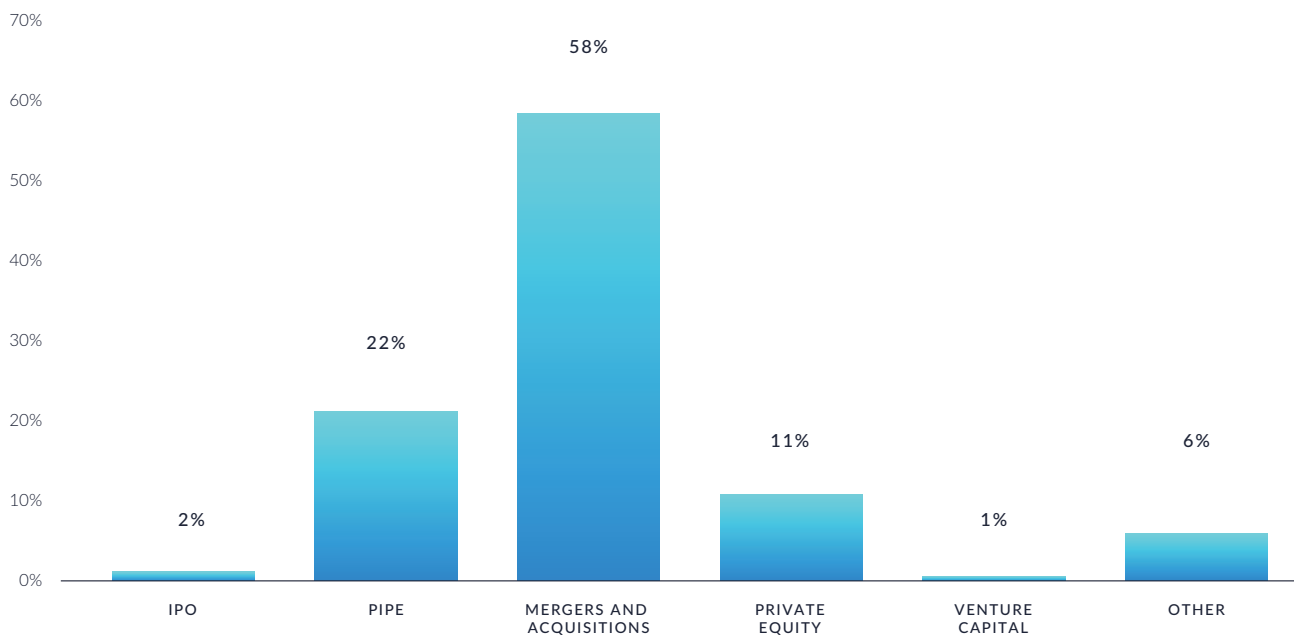


Source: PitchBook Data, Inc.

* Q2 2020 was obfuscated as an outlier. Q2 2020 had \$89 billion capital invested into energy companies by GCC investors through 16 deals.

- Between Q1 2020 and Q3 2023, approximately \$132 billion was invested into material and mining companies by GCC investors in 322 deals.
- In Q2 2020, there was a major spike in capital invested, reaching \$89 billion with only 16 deals. This likely reflects large-scale, strategic acquisitions in response to the early COVID-19 pandemic disruptions.
- The third quarter of 2023 experienced another significant increase in capital investment, reaching \$23 billion across 18 deals. Investment in material and mining sectors is critical as the GCC countries continue to push towards economic diversification away from oil dependence, capitalizing on the global shift towards sustainable and renewable energy sources.

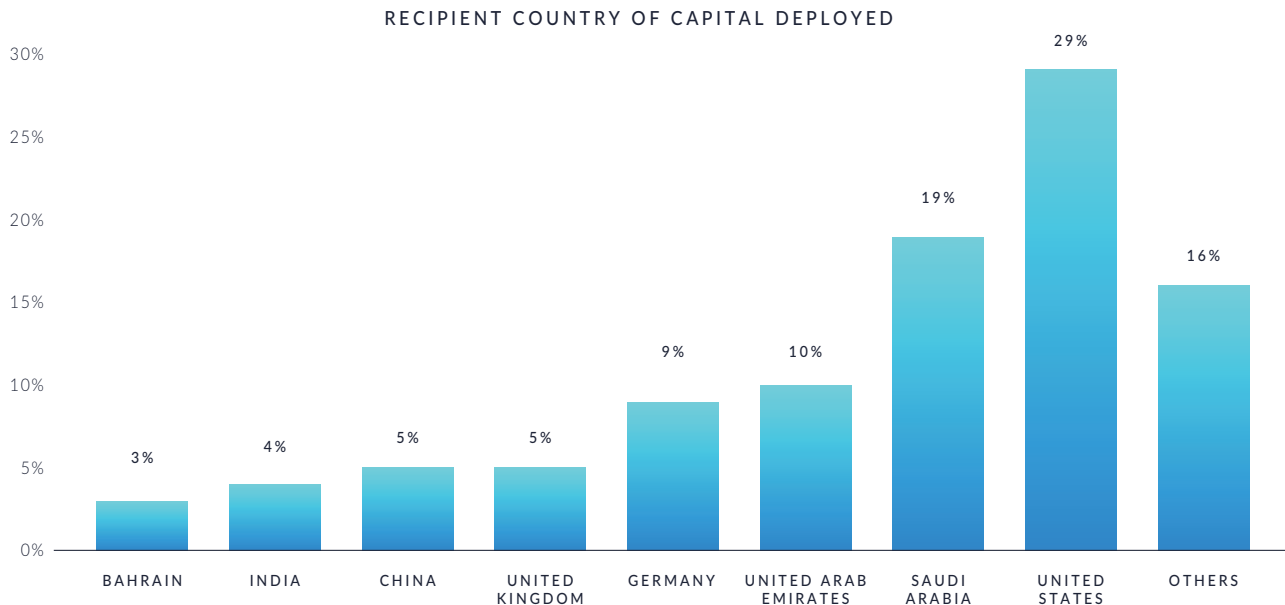
Breakdown of Announced Industrials, Energy, and Resources Transactions by GCC Investors by Deal Type (2020 – Q3 2023)



Source: PitchBook Data, Inc.

- GCC investors favored mergers and acquisitions (M&A), which contributed to 58% of the total capital invested. The significant emphasis on M&A reflects the strategic approach to acquiring established businesses and assets within the industrials, energy, and resources sectors, likely driven by diversification efforts and market expansion.
- Between 2020 and Q3 2023 the industries leading the deal count were financials, industrials, and information technology sectors. Financials were driven by sovereign wealth funds like PIF and ADIA, while industrials benefitted from regional industrial growth plans. The IT sector surged due to digital transformation initiatives.
- Private investment in public equity (PIPE) deals accounted for 22% of the total capital, totaling \$135 billion. PIPE deals are attractive because they provide liquidity and capital to public companies without the need for a public offering, which can be advantageous in uncertain market conditions.
- Private equity investments constituted 11% of the total capital, amounting to \$68 billion. These investments involve direct funding into private companies, underscoring GCC investors' interest in supporting and partaking in the growth and development of private businesses within the specified sectors.
- A significant contributing factor to the data skew is that valuations for companies are generally lower at earlier stages, whereas PIPEs and M&As typically correspond with more mature businesses. Thus, although the venture capital proportion is low, there may be a high deal count but lower valuations.

Breakdown of Announced Industrials, Energy, and Resources Transactions by GCC Investors by Country (2020 – Q2 2023)



Source: PitchBook Data, Inc.

- A substantial proportion of GCC investors' capital (29%) was deployed in the United States, totaling \$141 billion. This significant investment reflects the attractiveness of the US market due to its stability, diverse opportunities, and strong legal framework.
- Saudi Arabia, Bahrain, and the United Arab Emirates (UAE) received substantial investments, accounting for 19% (\$91 billion), 3% (\$14 billion), and 10% (\$47 billion) of the total capital deployed, respectively. These countries likely benefited from regional investors' preferences, capitalizing on the GCC's proximity and familiarity with the local market dynamics as well as participating in these regions' efforts to diversify away from oil dependency.
- Other noteworthy countries, including Germany (9%), the United Kingdom (5%), China (5%), and India (4%), also attracted notable investments from GCC investors. These investments are driven by the search for strategic opportunities in diverse markets, enhancing global reach, and securing assets in high-growth sectors.



The data highlights a dynamic investment landscape by GCC investors across industrial (construction, engineering, defense, and machinery, etc.), energy (oil, gas, renewables, and utilities, etc.), and mining (precious metals, forestry, and agriculture, etc.) sectors. Industrial investments showed volatility, with significant peaks in Q2 2020 and Q3 2021. The energy sector witnessed substantial investments in Q2 2020 and Q1 2022. Material and mining sectors experienced varying capital injections, reflecting changing market dynamics. Mergers and acquisitions dominated deal types, accounting for 58% of total capital, emphasizing a strategic focus on consolidation. Geographically, the United States attracted the most significant share (29%), indicating its appeal to GCC investors. The data clearly highlights how the GCC is making a significant effort to diversify away from oil dependency into other core sectors like industrials, energy, and resources, through diversified investment vehicles.

SOURCES

GULF LEADERS CIRCLE

Discusses the significant foreign direct investment (FDI) in GCC countries, particularly highlighting the investments in Saudi Arabia and the UAE in 2022.



UNCTAD WORLD INVESTMENT REPORT 2023

Provides insights on global investment trends, including greenfield investments and the SDG investment gap in developing countries.



DELOITTE MIDDLE EAST INVESTMENT SENTIMENT REPORT 2022

Examines the investment sentiment in the GCC, highlighting factors driving investment decisions and the outlook for 2025.



ARDENT ADVISORY

Offers a detailed analysis of the healthcare and pharmaceutical sector in the GCC, including investment trends and opportunities.



PITCHBOOK DATA INC.

Provides data on capital investments by GCC investors in various sectors and countries, including detailed breakdowns by deal type and recipient country.



PWC MIDDLE EAST

Reports on capital market activities in the GCC, including IPOs and M&A trends.



IMF BLOG

Discusses infrastructure investments in the GCC and the importance of public investment management frameworks.



PWC MARKET OVERVIEW

Highlights strong market performance, driven by increased IPO activity in Saudi Arabia, and anticipates continued growth in capital markets across the GCC.

