

Changing trends may result in consolidation opportunities



DOHA DATELINE
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THE DODD-FRANK Wall Street Reform and Consumer Protection Act in US implemented the regulatory reforms in response to the crisis. The law could reshape the competitive landscape and contribute to a new wave of consolidation in the industry. The most likely acquisition targets are small community banks that were hit hard by the recession and cannot readily afford the higher costs of regulatory compliance that cut into the bottom line. The liquidity and capital adequacy will witness changes due to Basel III. European banks will need to have more capital as a buffer. Global financial institutions will be selective on markets in which they need to focus. The retail segment and investment book has become more regulated and can challenge the profitability of financial institutions.

The value of global M&A was more than \$2 trillion in 2012 and had picked up in second half of 2012. Global bidders looking for Asia-Pacific targets favoured Chinese targets, followed by Japan and Australia. The concern over the eurozone crisis and US fiscal

cliff subdued deal making in 2012. The announced deal values in the Mena region rose to \$44.8 billion in 2012. Qatar saw the second largest number of announced acquisitions in the Mena region in 2012. We will continue to witness mergers and acquisitions in the GCC region.

In March 2013 Oman Investment and Finance bought 15 per cent stake of Bank Sohar.

In April 2012 Qatar's sovereign wealth fund acquired a 5.2 per cent stake in Tiffany, the US jewellery retailer. In Qatar Alijarah Holding is expected to acquire Al Nasr Modern Driving School and Petro Qatar. Commercial Bank of Qatar (CBQ) expects to complete the purchase of a 75 per cent stake in Turkey's Alternatifbank by the end of March 2013.

QNB is also eyeing stakes in Turkish banks. In 2012 HSBC entered into an agreement with Oman International Bank (OIB) to merge its Oman branch with Oman International Bank. Earlier in 2007 Emirates and National Bank of Dubai merged. Abu Dhabi's Aldar Properties and Sorouh Real



Arabtec, which owns 60 per cent of Target Engineering, is likely to buy the remaining 40 per cent for further expansion. — KT file photo

Estate are to be merged this year. In the UAE Arabtec, which owns 60 per cent of Target Engineering, will buy the remaining 40 per cent for further expansion.

Joint Ventures are another segment which has witnessed significant activity in the GCC. This mainly prevails in Oil and Gas Sector in the GCC. The LNG trains in Qatar are floated and operated by joint venture companies. Qatar Petroleum along with other major oil

companies are the major venture partners in such joint ventures. In Dolphin energy project total and Occidental petroleum are venture partners along with Mubadala Development Company.

Corporate structures are aligned to cater to business requirements and have given birth to subsidiaries, associates and joint venture routes. Special purpose vehicles (SPV) are used by organisations solely for a particular financial

75%
of Alternatifbank
stake to be
bought by CBQ

transaction or series of transactions. A corporation can use such a SPV to finance a large project without putting the entire firm at risk. Special purpose vehicle are often used to make a transaction tax efficient by choosing the most favorable tax residence for the vehicle. It would be difficult for an investor to gather together all the accounting reports of a parent company and its many subsidiaries in order to get an idea of the financial health of the total enterprise, so parent companies are now required to report their finances on a consolidated basis.

Consolidated financial statements do not always give a more accurate picture of the financial health of an enterprise because the individual accounting reports from the subsidiaries do not show up

anywhere but in the notes section of the consolidated finances. This makes it possible to hide problems in the subsidiary reports, which is how Enron managed to hide the losses and liabilities some of its failed projects generated. Good Governance will bring more transparency in consolidated financial statements reporting.

The global regulatory realignment can give rise to opportunities for consolidation in the financial services industry. Struggling growth in advanced economies would enable MNC players to look for opportunities in emerging economies and Asean economies. Supermajor oil companies have participated in GCC's Oil and Gas Sector through the Joint Venture route. Similarly GCC sovereign wealth funds also acquired stakes in various companies across the globe. GCC Banks have expanded business through adding new products, services and technology and have entered new markets both through organic and inorganic route. The changing business trends may result in consolidation opportunities.

The writer is the group chief executive officer at Doha Bank. Views expressed are his own and do not reflect the newspaper's policy

