

Views on Equities: National Commercial Bank/SAMBA Merger

Consolidation to further drive returns in MENA markets:

Amidst a weak economic environment from low oil price, even before COVID-19 challenges, regional corporates are trying to stay ahead of the competition – be it through cost rationalization programs, divestiture or mergers and acquisitions. With the objective to unlock significant value for shareholders, in the previous few years, we have witnessed a few large ticket mergers in the region. It started with National Bank of Abu Dhabi/First Gulf Bank in UAE, followed by SABB/Al Awwal in Saudi Arabia, Abu Dhabi Commercial Bank/Union National Bank in UAE and finally with Emirates NBD/Deniz Bank in UAE/Turkey. Aside from mergers in the banking space, Emaar Group in the UAE separately listed its operating businesses (Emaar Development and Emaar Malls). Recently, Public Investment Fund (PIF) sold 70% of its SABIC stake to Aramco with the expectation that proceeds will be used to bolster Saudi Arabia's diversification efforts.

From a markets standpoint, we believe M&A results in significant value unlocking. As witnessed in the past, companies went through the merger process, which resulted in management revising cost synergy guidances. While National Bank of Abu Dhabi/First Gulf Bank started with c.15% cost synergy guidance (on combined cost base of both companies), it ended with close to c.28%. Abu Dhabi Commercial Bank upgraded synergy guidance by c.50+% to c.AED1bn from an initial guidance of AED640m. Similarly, SABB/Al Awwal started with synergy guidance of 10-15% which was later upgraded to 15-20%. Furthermore, there is potential for 2-3% revenue synergies through improved cost of funding and cross-sell potential.

Going forward, we expect the environment to remain weak which means consolidation is likely to accelerate and could spread over in other industries. In line with our expectation, we believe consolidation would emerge as a major investment theme and investors need to be positioned accordingly to take advantage of this. Our Emirates MENA Top Companies Fund, as well as other funds and portfolios materially benefitted from the potential merger of National Commercial Bank/Samba as we had a sizable combined overweight exposure to both companies.

National Commercial Bank/SAMBA Deal

On June 25th, National Commercial Bank (NCB) announced that it has entered into an agreement to start due diligence and negotiate the terms of a potential all share merger deal with SAMBA. Post completion of successful due-diligence, SAMBA shareholders would receive between 0.736 and 0.787 newly issued NCB shares for every share of SAMBA. At this range of the swap ratio, SAMBA was valued at c.15-22% premium to June 25th closing price. Announcement of the swap ratio along with the merger news implies discussions are at advanced stages. A potential merger would create a national champion (similar to FAB and Emirates NBD in UAE, National Bank of Kuwait in Kuwait and Qatar National Bank in Qatar) with c.USD45bn of market capitalization, c.US\$200+bn of assets with a c.29% share of the Saudi banking system assets and a loan market share of c.27%. The investment portfolio of the potential combined entity would be almost US\$60bn. While NCB is already well positioned across all business lines and has one of the leading offerings in terms of digital, NCB could gain from SAMBA's surplus liquidity, well capitalized balance sheet and strong treasury function.

The Public Investment Fund (PIF), Public Pension Agency (PPA) and General Organization for Social Insurance (GOSI) are the three largest shareholders of both banks, owning a combined c.55% of NCB and c.42% of SAMBA implying minimal hiccups in the merger process.

Market Outlook

Given the weak outlook for oil prices, we would not be surprised to see further consolidation across a variety of industries as governments and corporations strive to find synergies and cost savings in the current environment. Should this occur, Emirates MENA Top Companies fund's diversification across GCC regions and industries positions it strongly to benefit.

08/31/2007 to 06/30/2020	1 Month	YTD	12 Months	10 Years	Active Share	Volatility Annualized	Dividend Yield
Emirates MENA Top Companies Fund	5.31%	-15.91%	-13.22%	60.84%	82.1	19.14%	4%
Benchmark: 45% MSCI Saudi Arabia Domestic Index, 55% MSCI Arabian Markets Index ex Saudi Arabia	3.93%	-14.33%	-15.79%	14.17%	n/a	17.47%	n/a

Emirates Portfolio Management PCC - Emirates MENA Top Companies Fund PC is regulated by the Jersey Financial Services Commission. Source: ENBDAM, P Share Class, with net income reinvested from 08/31/2007 to 06/30/2020.

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