Seeking growth opportunities

Potential for renewable energy is one of the things tipped to draw outside investors to merge with SA companies, writes **Pedro van Gaalen**

Global merger and acquisition (M&A) activity surged to record levels in 2021, exceeding $5-trillion.

According to an analysis by RMB Corporate Finance, SA also experienced robust deal activity last year, with more than 430 transactions. Roughly 70 deals involved foreign buyers and were valued at about R750bn.

But global M&A activity slowed in 2022 due to economic headwinds and rising geopolitical volatility.

"The most recent statistics published by SS&C Intralinks suggest a decline in deal volumes on both a global and local level," says Andre Bresler, founding partner at Benchmark International SA.

"At a mid-market and lower mid-market level, we expect that deal volumes will remain consistent and show a small increase on the record year experienced in 2021."

M&A activity in 2022 will probably be supported by the need to buy growth and gain access to new markets; a shift to mitigating risk through structuring deals; opportunities for deal-making on distressed assets; and greater divestment and spin-offs to align strategic corporate focus.

"Many organisations are looking for opportunities, albeit with a healthy sense of caution," says Warrick Haskell, senior associate: advisory at Nedbank CIB.

James Mutugi ... sanguine about SA

Haskell highlights the search for growth as a major driver. "Numerous companies that sustained operations through the challenging past 24 months, and continue to track GDP in terms of their growth, recognise the need to restore their profitability trajectories."

He expects many companies to use mergers or acquisitions to bolster their long-term growth at a top-line level and enhance efficiencies, unlock operational synergies and access sectors where they see good prospects.

"The need to secure supply chain resilience will likely emerge as another key driver due to the spotlight that Covid lockdowns shone on supply chain vulnerability within many businesses."

Sectoral themes in global M&A activity include a strong focus on the packaging sector, media and telecoms.

Chris Green, partner at Hogan Lovells Joburg, says: "Among other things, we expect to see continued investments in data centres, with SA uniquely positioned for sustained growth in this area due to the country's geography, relatively advanced IT and fibre infrastructure, and enhanced potential for captive renewable energy generation."

Bresler says Benchmark also experienced unprecedented demand in the aforementioned sectors, as well as in the logistics, branded cosmetics, consumer-related products and retail sectors.

Johan Marais, corporate finance director at Mazars in SA, highlights key themes related to renewable energy and technology.

"M&A activity will likely increase as countries invest to develop and maintain existing infrastructure while diversifying into greener assets and enhancing the decarbonisation process."

Marais also predicts greater M&A activity related to technology disruption, especially in the agri sector around biodiversity, e-commerce and artificial intelligence.

"The significant M&A activity experienced in the financial services space will also likely continue as shareholders look for attractive yields."

Locally, numerous quality businesses continue to trade at attractive valuations. So the fundamentals of potential targets and industry-specific performance will probably drive continued inbound M&A activity, suggests Karien Strydom, corporate finance executive at RMB.

Karien Strydom ... continued interest

"This is evident in the recent activity in the resources, financial services and consumer sectors, which saw transformational inbound M&A transactions."

James Mutugi, head of M&A at Absa CIB, expects that strategic and financial investors who already have a presence in the local market will drive inbound M&A activity as they seize chances to strengthen their presence.

"Sophisticated longer-term investors tend to be quite sanguine about SA's economic and political position, particularly relative to other emerging and less-industrialised markets," says Mutugi.

"They have also taken notice of corporate SA's ability to navigate crises while retaining profitability and growth."

Russia's invasion of Ukraine and the resulting volatile situation in Eastern Europe have understandably dulled the appeal of investing in that region, which is likely to offer some benefit to SA, suggests Haskell.

SA, he says, is still recognised as a stable, high-potential emerging market, despite its economic and political challenges.

From an outbound M&A perspective, Green says: "SA businesses that face a depressed local economy and have significant deployable capital will increasingly look north of the border, to other accessible developing markets, for growth."

Says Strydom: "There is continued interest in outbound deals, specifically into hard-currency markets or high-growth markets that provide geographic diversification."