Al Safat – Cap Corp Merger: Success Story & Future Prospects

Kuwait embarks in a new promising era under the leadership of His Highness the Amir Sheikh Mishal Al-Ahmad Al-Jaber Al-Sabah. As His Highness highlighted on several occasions, regional and international challenges necessitate that Kuwait remains vigilant and prepared. This process includes various challenges; chief among which is transforming Kuwait's economy into a more diversified and sustainable one; an effort spearheaded by His Highness Sheikh Mishal since his time as Crown Prince. This includes efforts to strengthen bilateral relations and fostering further economic cooperation, notably with China. Through his clear vision, Kuwait looks poised to be back on track of development.

Could you explain us in detail about the rationale for the merger?

The merger between Al Safat Investment Company K.S.C.P. and Cap Corp Investment Company K.S.C.C. is driven by a strategic vision to enhance synergies and amplify shareholders' value. Cap Corp was carefully chosen for its alignment with the company's values, and the merger is poised to deliver higher operational effectiveness in terms of revenue, cost, and financial synergies. This process adheres to Kuwaiti laws and involves essential steps such as due diligence, independent valuation reports, and regulatory approvals.

The financial implications of the merger are significant, with an indicative swap ratio valuing each share of Cap Corp Investment Company at half (0.5) that of Al Safat Investment Company. A targeted capital increase of 35.3 percent, equivalent to KD 10 million, is expected to raise the company's capital to KD 38.3 million, contributing to a 19% increase in the company's book value. The strategic move aims to create a larger and stronger investment entity, broaden market share, and increase market value, benefitting shareholders through expanded revenue streams.Post the integration process, Al-Safat Investment Company anticipates growth in assets to about KD 51 million, a 39% increase, leading to managed assets totalling $250 million with a growth rate of 48%. The company also envisions a diversified income flow from its balanced portfolio, including investments in associates across investment, real estate, and information technology sectors. Additionally, the merger is seen as an opportunity to augment human resources with specialized and experienced professionals, playing a pivotal role in realizing the company's strategic goals and direction for the future.

When do you expect the merged entity to be fully operational and what are the goals for the new entity?

As we approach the conclusion of our integrated planning, we anticipate the fully operational status of the merged entity by 2024. Currently, the organization is diligently navigating the final stages of this process, including the seamless transition of assets and the restructuring of our management and organizational framework.

In terms of leadership and organizational dynamics, we are currently in the process of formally announcing a restructuring initiative, subsequent to the integration process. This organizational adjustment emphasises our dedication to enhancing the configuration of the newly merged entity, with a focus on aligning it with our strategic objectives. The integration of Al Safat Investment Company brings on board a team of skilled professionals endowed with extensive expertise and specialized competencies. We foresee their invaluable contributions playing a pivotal role in recognizing the goals and strategic direction set for the new entity. Specifically, our focus lies in enhancing our market position through judicious assets restructuring and disposal. The proceeds from these activities will be strategically directed towards income-generating assets, aligning with our vision for sustained growth and profitability. In essence, our goal for the new entity is to leverage the collective strengths of both entities, capitalize on the diverse skill sets within the team and execute a strategic vision that ensures a robust market presence and sustained financial success.

In your opinion, what would be the impact of this merger on the investment landscape in Kuwait?

The timing of this merger is particularly noteworthy given the current economic climate in Kuwait. With the expected negative growth rate in real GDP in 2023, of approx. 0.7% in 2023 compared to 9% in 2022, primarily attributed to reduced oil production due to the country's adherence to additional OPEC+ production cuts, the investment landscape is poised to experience a significant impact. This contraction will inevitably put pressure on various sectors, including investments.

In such a challenging economic environment, the merger and acquisition landscape become increasingly pivotal. Investment companies with robust fundamentals are

presented with opportune moments to engage in strategic mergers and acquisitions. By doing so, these companies can harness synergies, foster growth and fortify their market share and positioning. This strategic approach becomes imperative as companies seek innovative ways to navigate and thrive in an evolving economic scenario.

The recent trend of mergers in Kuwait over the past few years underscores the proactive stance taken by industry players to adapt to changing economic conditions. Al-Safat Investment Company's decision to pursue this merger aligns with this trend, signaling a strategic move to position itself as a boutique Islamic Company with thematic products. This realignment is carefully tailored to match the evolving preferences of its client base.

Through this merger, Al Safat Investment Company is not only responding to economic challenges; it is proactively reshaping its identity and strategic focus. By doing so, the company aspires to emerge as a well-positioned investment entity in the sector, utilizing inorganic growth strategies to create a distinctive market presence and cater to the evolving needs of its clientele.

In essence, this merger is a testament to the company's forward-thinking approach in navigating the dynamic landscape of the Kuwaiti investment sector.

What is your opinion on the growth of market making in Kuwait and is your firm taking initiatives for entering the business?

Al Safat Investment Company recognizes the integral role of market makers on the Kuwait Stock Exchange, where they play a pivotal role in providing liquidity to ensure market stability. By providing liquidity and enhancing the average daily traded value (ADTV) of listed stocks, it aims to mitigate price volatility. This approach not only strengthens investor confidence but also appeals to larger funds and portfolio managers, thereby reducing liquidity risks and cultivating an environment conducive to significant stock investments. The growth potential of market making in Kuwait seamlessly aligns with Al-Safat Investment Co.'s strategic vision for expanding its product offerings. Acknowledging the positive impact that a Market Maker license can have on the local stock market, our Board of Directors has endorsed comprehensive studies to facilitate the acquisition of this license. This decision underscores our commitment to adapting to evolving financial dynamics and actively contributing to the development of Kuwait's money market. Our Executive Management is proactively engaged in meeting the requirements set by the Capital Markets Authority, securing initial approval for the implementation of market-making activities.

In essence, our deliberate steps toward market making exemplify our commitment to being a key player in Kuwait's evolving money market landscape. We anticipate contributing to market growth, upholding regulatory standards and fostering operational excellence to enhance the overall health and attractiveness of Kuwait's financial markets.

What do you think are the growth drivers and challenges for the investment sector?

The investment sector in Kuwait is characterized by a numerous of growth drivers and challenges. One of the primary challenges stems from Kuwait's heavy reliance on oil, constituting approximately 90% of total exports. This overreliance underscores the undiversified nature of the economy, impeding growth in the non-oil sector and positioning Kuwait as having the least diversified economy among GCC countries. Adding to these challenges are Kuwait's low rankings in business and competitiveness indices, which obstruct the development of a robust investment climate. The country grapples with a shortage of foreign direct investments, resulting in a dearth of domestic investment opportunities and an outflow of excess savings. The combative political system further complicates matters, leading to sluggish reforms and policy implementations. The geopolitical tensions in the region, combined with the flight of liquidity to safe havens, contribute to the intricate landscape faced by Kuwait's investment sector. These challenges collectively emphasize the imperative need for comprehensive reforms and strategic initiatives to cultivate a more diverse, competitive, and resilient investment environment in Kuwait. Despite these challenges, there are positive indicators. The non-oil sectors are ready for robust growth, with an anticipated 4.6% increase in 2023. This growth is driven by factors such as private consumption, fixed investments, and a more lenient fiscal policy in response to relatively high oil revenues. Additionally, the Amir His Highness Sheikh Mishal Al Ahmad Al Jaber Al Sabah, seeks to transform the Kuwaiti economy into a more diversified and sustainable one. This includes efforts to strengthen bilateral relations, notably with China, resulting in fruitful outcomes and fostering further economic cooperation.