SORTINO M&A GROUP

Bayanat and Yahsat's Merger for $4bn

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DETAILS ABOUT THE DEAL

Yahsat (Al Yah Satellite) has agreed to merge with Bayanat in an all-share merger that is expected to close in the second half of 2024.

The merger between the two UAE-based companies will form a leading MENA region AI-powered space technology company with an implied market capitalization of AED 15bn (over $4bn), based on both entities' closing share prices on the 18th of December 2023, the last day of trading before the announcement of the merger. This merger will also make the combined entity, which is expected to be named Space42 post-merger, one of the most valuable listed space companies in the world.

As both companies are listed on the ADX, the merger will be executed through a share swap with Bayanat as the remaining legal entity. Bayanat shareholders will own approximately 54% of the combined entity, and Yahsat shareholders will own 46%. After the deal, however, the combined entity is expected to be 42% owned by G42, a company which currently has a majority ownership in Bayanat.

Houlihan Lokey is serving as the financial advisor for Bayanat and FTI Capital Advisors for Yahsat.

SOURCE: MIDDLE EAST AI NEWS

REASONS FOR M&A

The first reason for the merger is that it combines the assets and expertise of two entities with strong advances in the technology space. Bayanat is an AI-powered geospatial data and services provider, whose solutions span many sectors including government services, transportation and energy. Yahsat is a large global satellite operator that provides satellite services to more than 150 countries worldwide. The combined entity will be vertically integrated and positioned to offer satellite communications and geospatial solutions, with enhanced AI-powered technological capabilities enabling space-based services. Space42 will thus be able to leverage both satellite communications and AI-powered technological advancements to be a leader in the space technology industry.

The merger is also expected to generate considerable revenue synergies and economies of scale. The revenue synergies are likely to come from the complementary products both firms offer, positioning the new entity to generate higher sales through its satellite communications and AI-powered space technology capabilities. These products are also likely to reach new end markets and customers as they offer more innovative solutions that can be used across a variety of different sectors and economies.

The final strategic reason for the merger between Yahsat and Bayanat is that several of the Gulf countries are looking to shift away from their reliance on oil revenues and as a result, there have been huge developments across new emerging sectors. Within the UAE, there has been a huge push to develop the country's knowledge economy and in July 2022, the UAE launched an AED 3bn fund to support its space programme as well as develop radar satellites. The fund also aimed to boost national strategic and research projects in the space sector.

SOURCE: REUTERS

Acquirer Overview

بيانات
BAYANAT

Bayanat, headquartered in Abu Dhabi and established in 2008, integrated with G42 in 2020. It has emerged as a regional leader in technology, backed by world-class artificial intelligence (AI), geospatial, and cloud capabilities. The company is structured around five divisions: Smart Geospatial Solutions (SGS), Smart Operations Solutions (SOPS), and Smart Mobility Solutions (SMOS), Smart Ocean Solutions (SOCS), and Smart Space Solutions (SPAS).Hasan Al Hosani serves as the CEO, and Bayanat employs approximately 300 people. It has been listed on the ADX since October 2022.

Currently, Bayanat is free of debt.

KEY FINANCIALS

Market Cap: 642.86mn AED
Share price: 2.5 AED (20/02/2024)
Revenue (FY23): 1159mn AED
Diluted EPS (FY23): 0.09 AED

P/E ratio (FY23): 27.22
EBITDA (FY23): 105mn AED
Net Income (FY23): 232mn AED

KEY FINANCIALS (CONTINUED)

Gross Profit Margin: 30.62% – This ratio declined from 2022's 40.52%. Despite the 47% revenue growth from FY22 to FY23, Bayanat is struggling to maintain its profit margin level.

Price-to-Earnings (P/E) ratio: 27.22 – The average P/E ratio is around 20-25. This indicates that Bayanat is slightly overvalued compared to the market.

Current ratio: 0.24 – This liquidity ratio assesses a firm's ability to cover its short-term liabilities with its current assets. A ratio above 1 is considered healthy. At 0.24, there could be concerns because Bayanat may not be able to meet its short-term liabilities with its assets.

Efficiency ratio (asset turnover): 0.67 – This ratio examines how efficiently a firm uses its assets to generate revenue. A ratio greater than 1 is considered favorable. Bayanat's asset turnover ratio appears low, especially since the telecom industry's average is around 1.5.

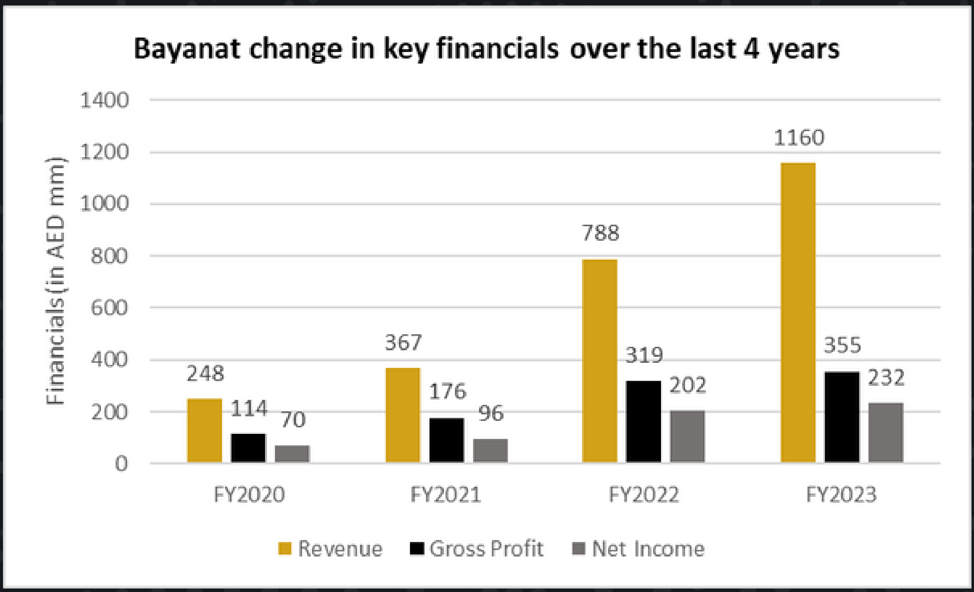
Debt-to-Equity (D/E) ratio: 0% - This ratio focuses on the company's capital structure, comparing the amount of financing from debt versus equity. Bayanat does not have any debt as of FY2023.

KEY FINANCIALS (CONTINUED)

Bayanat share price movements prior to announcement of acquisition:

Bayanat was listed on the ADX on October 31, 2022, with its share price peaking in November 2022 at 5.75 AED shortly after the IPO. The stock has since dropped by more than 50% and is now trading at 2.5 AED. Despite a fall in results from Q4 2022 to Q1 2023 (revenue decreased from 214,662 $K to 27,494 $K), the stock price rebounded to around 4.75 AED in May 2023. The stock, however, has been on a downward trend since then, despite strong financial results for FY2023. In FY2023, revenue increased by more than tenfold (from Q1 2023's 27,494 $K to Q4 2023's 315,752 $K), but the profit margin declined from 51% to 31%. This discrepancy could contribute to negative investor sentiment towards the stock.

KEY FINANCIALS (CONTINUED)



Bayanat did not have any operations during the year ended 31 December 2019.

Revenue has increased significantly from 2020 to 2023. However, profit margin and the net income margin had both decreased gradually. The best profit margin was 48% at 2021, the best net income margin was 28% at 2020 and it is now 31% and 20% respectively.

BUSINESS MODEL

Bayanat is an AI-powered geospatial solutions company with five divisions and a foundational layer. Geospatial Artificial Analytics (gIQ) is both a market-facing division and an essential foundation powering activities across divisions.

Business Segments

Bayanat's Smart Geospatial Solutions (SGS) division stands as a comprehensive hub for geospatial analytics, delivering a full spectrum of services that encompass data collection, processing, and advanced Artificial Geospatial Analytics Services. Catering to an expanding array of industries, including Government Services, Energy & Resources, Smart Cities, Transportation, and Environmental sectors, the division offers tailored solutions to meet the specific needs of each domain.

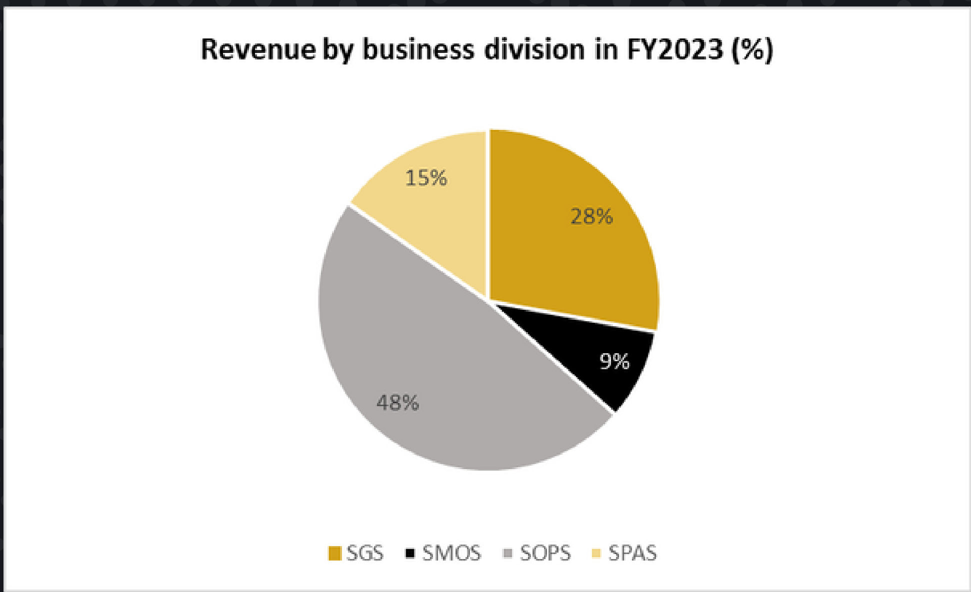
The Smart Operations Solutions (SOPS) division is at the forefront of transforming operational approaches for various organizations by offering the most advanced AI-driven technologies. These solutions enhance efficiency and effectiveness across multiple operational areas, leveraging cutting-edge Digital Twin, Cloud Computing, and AI technologies.

The Smart Mobility Solutions (SMOS) division leads the MENA region in autonomous driving and unmanned system innovations, showcasing a robust portfolio that includes Autonomous Solutions, Cloud Infrastructure, Digital Twins, Charging Infrastructure, Transportation Super Apps, and Testing and Simulation. Notably, its TXAI trial, an L4 autonomous vehicle ride-hailing service, sets the stage for a broad overhaul of the public transportation ecosystem. The division's strength lies in the synergy between its Artificial Intelligence and gIQ capabilities, with gIQ providing essential data infrastructure for unmanned systems operation, such as high-definition maps and positioning, while AI technology enables the autonomy of these vehicles.

BUSINESS MODEL (CONTINUED)

The Smart Ocean Solutions (SOCS) division serves as Bayanat's Blue Economy sector, focusing on initiatives in Marine Exploration, the commercialization of research, Educational programs, and the promotion of Sustainable and Smart Fishing practices.

Lastly, the Smart Space Solutions (SPAS) division specializes in AI-driven information services, leveraging space-based assets for Remote Sensing and Communications. This division provides industries with timely and actionable insights, enhancing decision-making processes.



This pie chart illustrates the contribution of Bayanat's business divisions to its total revenue in FY2023. The Smart Operations Solutions (SOPS) division is the primary revenue driver for Bayanat, accounting for nearly half of the company's revenue. The SOCS division has yet to generate revenue; however, Bayanat's investment in this division is on the rise, increasing from 4 million AED in 2022 to 20 million AED in 2023.

ESG PRACTICES

Bayanat implements ESG practices by partnering with government agencies to deliver geospatial solutions for sustainability projects. They focus on integrating green technologies, specifically High Altitude Platform Stations (HAPS) and Electric Vehicles (EVs), into their operations. Additionally, Bayanat has secured ISO 14001 Certification, reflecting their commitment to environmental management. Their strategic alliances, as indicated by a Memorandum of Understanding with the Environmental Agency of Abu Dhabi and collaboration with OceanX, enhance their ESG profile. They also support research and development within the blue economy by sponsoring events like GCR 2022.

Target Overview

yahsat الياه سات

Al Yah Satellite Communications Company P.J.S.C. (Yahsat), established in 2007 and headquartered in Abu Dhabi, is a subsidiary of Mubadala Investment Company PJSC. It provides extensive satellite services to over 150 countries across Europe, the Middle East, Africa, South America, Asia, and Australasia. Yahsat's operations are divided into Yahsat Government Solutions, Thuraya, YahClick (in partnership with Hughes), and YahLink. Furthermore, Yahsat has investments in Hughes do Brasil, a joint venture with Hughes, and Yahlive, a partnership with SES. In 2020, the company started the construction of Thuraya 4-NGS, its next-generation telecommunications system, expected to be operational by 2024. Yahsat has been listed on the ADX since July 2021, with Ali Al Hashemi serving as CEO since April 2021.

KEY FINANCIALS

Market Cap: 5221mn AED
Share price: 2.14 AED (20/02/2024)
Revenue (Q4’23): $117mn
P/E ratio (FY22): 14.43

Diluted EPS (FY22): $0.03
Adjusted EBITDA (Q4’23): $68mn
Net Income (Q4’23): $5mn
Operating Income (Q4’23): $23mn

KEY FINANCIALS (CONTINUED)

Operating Profit Margin: 19.66% - This ratio for Q4'23 shows an improvement from 15.08% in Q3'23.

Price-to-Earnings (P/E) Ratio: 14.43 – This is below the market average, suggesting Yahsat may be undervalued compared to Bayanat.

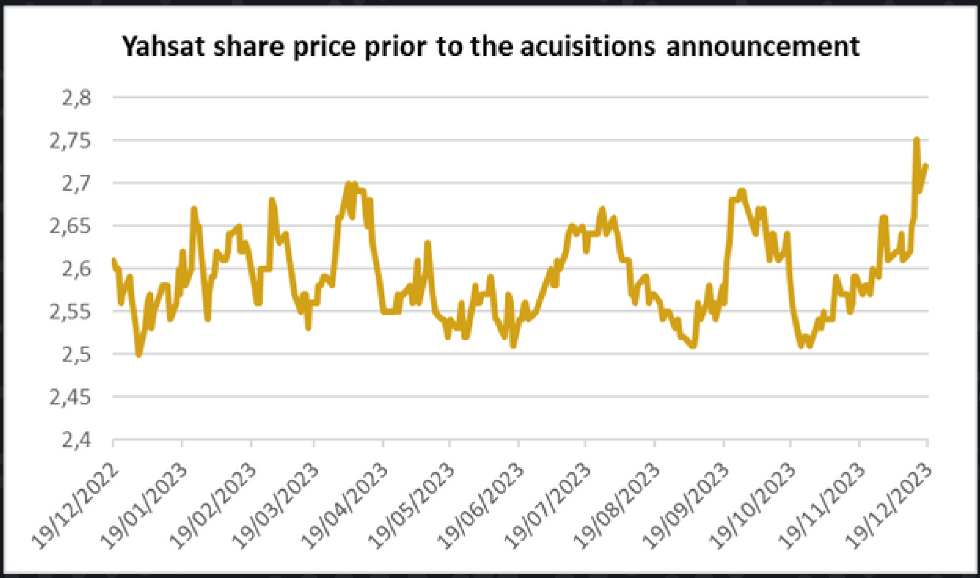
Current Ratio: 2.32 – Yahsat has roughly $2.32 in current assets for every $1 of current liabilities, indicating sufficient short-term assets to cover its liabilities.

Efficiency Ratio (Asset Turnover): 0.21 – This reflects how effectively a firm uses its assets to generate revenue. Yahsat's asset turnover ratio of 0.21 is low, especially when compared to the industry average of 1.5.

Debt-to-Equity (D/E) Ratio: 57% – Yahsat carries debt, though it is at a relatively manageable level.

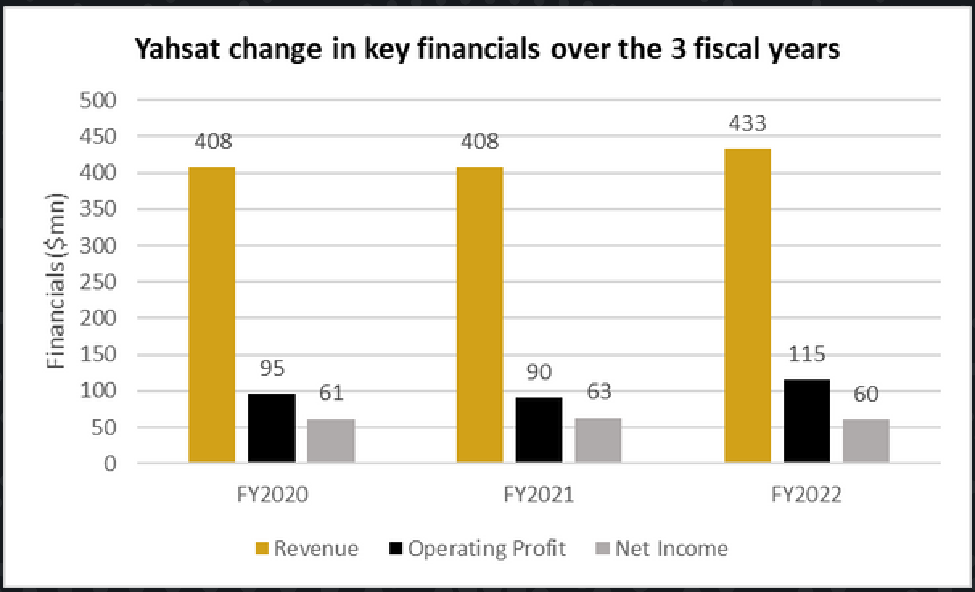
KEY FINANCIALS (CONTINUED)

Yahsat share price movements prior to announcement of acquisition:



Yahsat has been listed on the ADX since July 2021, with its stock price ranging between 2.5 and 3 AED. Before the acquisition announcement, the share price was relatively stable. After the announcement, the stock momentarily rose to 2.85 AED and then quickly fell. The current share price is 2.14 AED, showing a downward movement.

KEY FINANCIALS (CONTINUED)



This shows the financial performance of Yahsat since the disclosure of the information due to their IPO in 2021. In FY2022, Yahsat's revenue improved by 6% and the profit margin has increased from 22% to 27% as well. Net income has decreased slightly especially because of the impairment loss of $40,575 thousand in respect of the Group's investment in HPE Brazil.

BUSINESS MODEL

Yahsat's business model is composed of various segments: infrastructure, managed solutions, mobility solutions, data solutions, and broadcast solutions.

BUSINESS MODEL (CONTINUED)

Business Segments

The infrastructure segment is operated by Yahsat Government Solutions, which specializes in leasing critical satellite capacity to the UAE Government and providing satellite operation services. Additionally, YahLink falls under the infrastructure banner, known for its IP trunking solutions, corporate networking, and backhauling capabilities, all marketed under its Managed Solutions and Data Solutions divisions.

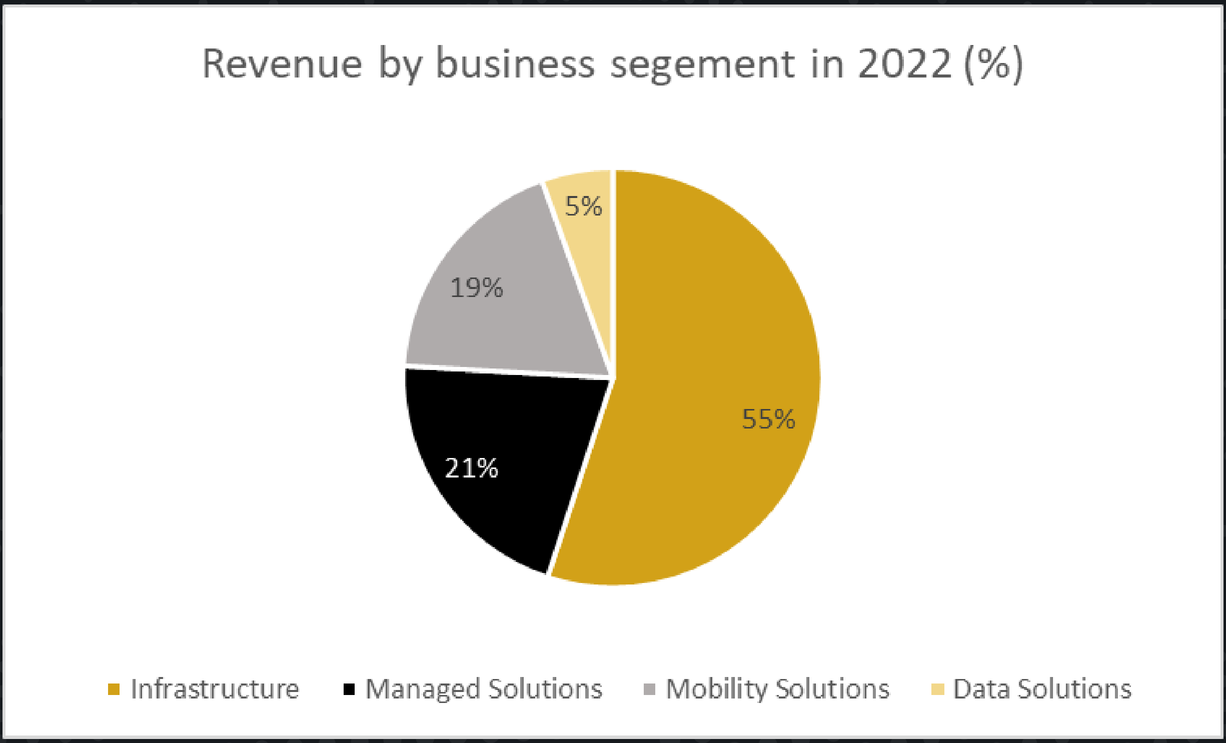
The managed solutions are yet another aspect of Yahsat Government Solutions, focused on creating secure, end-to-end managed solutions and bespoke turnkey SatCom platforms.

For mobility solutions, Thuraya is the designated operator, offering reliable mobile satellite services that enable direct-to-device voice and data communications.

The data solutions segment is spearheaded by YahClick, which provides high-speed satellite broadband to consumers, enterprises, and government users alike.

Finally, the broadcast solutions are managed by Yahlive, a joint venture with SES, which caters to broadcasters by providing premium services and a curated selection of TV channels.

BUSINESS MODEL (CONTINUED)



Infrastructure is the most significant revenue source among their business segments, representing $241 million in revenue.

ESG PRACTICES

Yahsat has developed a five-pillar sustainability framework as outlined in ADX G8.1 to guide its efforts in managing, reporting, and strategizing on key sustainability areas, defining the company's approach to sustainability. The company plans to periodically reassess this framework to ensure it remains aligned with evolving sustainability priorities. Yahsat is actively implementing identified priority actions within its sustainability strategy and will continue to update this strategy to reinforce its commitment to sustainable development in its operational and service areas. Key initiatives include the creation of an ESG policy and position statements on significant business aspects. While Yahsat has not yet achieved external assurance for its sustainability disclosures as mentioned in ADX G9, it is exploring options in this area. For a detailed overview of Yahsat’s sustainability efforts, the company encourages reading the 2022 sustainability report available on its website, as indicated in ADX G7.

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Valuation Analysis

COMPARABLES ANALYSIS

Share Price		$0.61
FY2027 Revenue		728,855
FY2027 EBIT		389,072
Implied Market Cap (P/S)		930,070
No. of Shares		2,439,770
Implied Share Price (P/S)	**$**	**0.38**
Implied Enteprise Value (EV/EBIT)		4,655,680
Net Debt		(16,371)
Implied Equity Value		4,639,309
No. of Shares		2,439,770
Implied Share Price (EV/EBIT)	**$**	**1.90**

Our analysis provides a split view of Yahsat's market valuation. The P/S-based evaluation, projecting an implied share price of $0.38, suggests a significant undervaluation, indicating a -60.0% premium relative to its current share price of $0.61. However this low valuation can be attributed to a lower multiple given by the comps set of only 3.4x compared to higher multiples for EV/EBIT and EV/EBITDA. On the other hand, the EV/EBIT-based valuation suggests a more optimistic view, with an implied share price of $1.90. This represents a substantial 211.7% premium over the current market price, highlighting a potential undervaluation of Yahsat's operational profitability.

Please click on the table to access the full model

BAYANAT DISCOUNTED CASH FLOW MODEL

Implied Share Price Calculation		
Sum of PV of FCF		199,685
Growth Rate		2.5%
WACC		5.0%
Terminal Value		1,313,060
PV of Terminal Value		1,040,952
Enterprise Value		1,240,637
(+) Cash		223,132
(-) Debt		16,087
Equity Value		1,447,682
Diluted Shares Outstanding (M)		2,571,429
Implied Share Price	**$**	**0.56**

After evaluating Bayanat's financial prospects using a Discounted Cash Flow model, a volatile pattern of unlevered free cash flows is observed from 2019 to 2022, including a significant outflow in 2022. However, the model predicts a positive turn from 2023, with increasing free cash flows in the future. The DCF model uses these projections and calculates their present value using a Weighted Average Cost of Capital of 5.0%. Along with a terminal growth rate of 2.5%, it provides a long-term view of the company's growth, resulting in a terminal value that reflects operations beyond the forecast period.
According to this model, the enterprise value of Bayanat is estimated at $1,240,637M. After adjusting for net cash or debt positions, the equity value rises to $1,447,682M. Comparing this with the current share price of $0.68, the DCF model suggests a more conservative price of $0.56. This difference implies a market pricing influenced by factors beyond free cash flow projections. A sensitivity analysis further enriches this evaluation by offering a range of scenarios that combine various WACC and terminal growth rates. Providing a comprehensive view of valuation situations.

Please click on the table to access the full model

YAHSAT DISCOUNTED CASH FLOW MODEL

Implied Share Price Calculation		
Sum of PV of FCF		1,008,367
Growth Rate		2.5%
WACC		4.7%
Terminal Value		11,997,810
PV of Terminal Value		9,615,054
Enterprise Value		10,623,420
(+) Cash		544,699
(-) Debt		528,328
Equity Value		10,639,791
Diluted Shares Outstanding		2,439,770
Implied Share Price	**$**	**4.36**

The Discounted Cash Flow model for Yahsat was developed as follows. Revenue was projected to grow at 11%, based on conservative historical data and management forecasts. COGS and SG&A expenses were set to increase as a percentage of revenue. For PP&E, we based growth on the average historical PP&E growth rate. D&A and CapEx were set as a percentage of the initial PP&E. For current assets, inventory growth was linked to days of inventory outstanding, and accounts receivable growth was linked to days sales outstanding. We calculated growth for other current assets by averaging historical current asset margins and projected this on a straight line. For current liabilities, we increased accounts payable, accrued expenses, and deferred liabilities as a percentage of revenue. This allowed us to calculate net working capital. Using these assumptions, we built the DCF with unlevered free cash flows.

The Weighted Average Cost of Capital was determined to be 4.7%, using an after-tax cost of debt of 3.1% and a cost of equity of 5.6%. This resulted in a base case of $4.36, using 2.5% as the long-term growth rate. A sensitivity analysis was also included, demonstrating how the implied share price varies with the long-term growth rate.

<u>Please click on the table to access the full model</u>

MERGER MODEL

Accretion/Dilution Analysis

Acquirer Net Earnings	75	Target Acquirer Net Earnings	70.04
Earnings Before Taxes (EBT)	194	**Earnings Before Taxes (EBT)**	70.88
Pro Forma Financials		**Pro Forma EPS**	
Consolidated EBT	265	Pro Forma Net Income	145.04
Less: Transaction Fees	123	Pre-Deal Acquirer Shares Oustanding	2,440
Plus: Synergies	66	Plus: New Shares Issuances	2,570
Pro Forma Adjusted EBT	208	**Pro Forma Diluted Shares**	5,010
Less: Taxes	10.42		
Pro Forma Net Income	198		
		Pro Forma EPS	0.0395
Accretion/Dilution		**0.439**	

Following the merger, Bayanat shareholders are projected to hold approximately 54% of the combined entity, while Yahsat shareholders will retain about 46% ownership. The calculated accretion of 0.439 indicates that the merger is expected to increase the combined entity's earnings per share (EPS). This positive accretion signifies that the merger will likely result in enhanced profitability for shareholders compared to the standalone entities. With an accretive effect on EPS, shareholders can anticipate improved financial performance and potential value creation as a result of the merger. Additionally, the synergies generated by the consolidation, estimated at around 40 million, further contribute to the financial benefits of the merger. By leveraging these synergies and combined capabilities, the merged entity is poised to strengthen its market position and drive growth across AI-powered geospatial and mobility solutions, satellite communications, and business intelligence sectors. Overall, the accretive nature of the merger underscores its potential to deliver significant value to both Bayanat and Yahsat shareholders.

Please click on the table to access the full model

Deal Analysis

STRENGTHS

- The merger creates one of the world's most valuable listed space companies, with a market capitalization of over AED 15 billion (approximately USD 4 billion). This positions the entity as a significant player in the AI-powered space technology sector, with a strong financial foundation and enhanced technological capabilities.
- The integration of Bayanat's AI-powered geospatial solutions and Yahsat's satellite communication services enables the new entity to offer a broad and diversified product portfolio. The merger is expected to unlock significant synergies, including revenue growth opportunities and economies of scale.

WEAKNESSES

- Merging two large entities with distinct cultures and operations can lead to integration challenges. While the strategic fit and potential synergies are clear, the actual realization of these benefits will depend on effective post-merger integration.
- The merger is subject to regulatory approvals, and navigating these requirements can be time-consuming and uncertain. Achieving a smooth transition without disrupting ongoing operations or stakeholder interests will be crucial.

Deal Analysis

OPPORTUNITIES

- The combined entity's enhanced capabilities and financial strength offer significant opportunities for expansion into new markets and sectors. The merger positions Space42 to capitalize on the growing demand for space-based services and technologies, not only in the MENA region but globally.
- With a focus on AI-powered space technology, Space42 is well-positioned to lead in the development of innovative solutions that can address complex challenges in satellite communication, geospatial analysis, and beyond.

THREATS

- The space and satellite services sector is highly competitive, with numerous players ranging from established giants to innovative startups. Maintaining a competitive edge will require continuous innovation and strategic partnerships.
- Rapid technological advancements mean that today's cutting-edge solutions can quickly become outdated. Investing in R&D and staying ahead of technological trends will be essential for Space42 to sustain its market position and growth trajectory.

GLOSSARY

Consortium: An association or group of organisations, companies, or individuals that come together to work towards a common objective, often by pooling their resources, knowledge, and expertise.

Equity: Equity refers to the ownership portion in firm's capital structure, which includes the share capital (stocks) a company issues as well as the retained earnings.

Goodwill: Premium paid for the intangible resources of a business, such as customer lists or patents.

Leverage: Indebtedness of a firm, which increases as companies issue more debt to fund their investment projects.

Synergies: The realised efficiency after combining two companies, which results in a benefit greater than simply adding the individual impact generated from each company separately.

Take-Private: The process of acquiring a publicly traded company making it a privately held entity. This is typically done by a private equity firm or a consortium of investors who believe the company has untapped potential that can be better realised without the pressures and constraints of being publicly traded.

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