Investors (re)discover Romanian opportunities

Florian Nitu, managing partner at Popovici Nitu Stoica & Asociatii, tells Business Review about the current state of the local M&A market and highlights its main achievements in 2017.

By Anda Sebesi

How did the Romanian M&A market evolve in 2017?

Against an international background marked by geo-political unrest - Brexit, Ukraine's political and constitutional instability, Hungarian-Polish illiberal tendencies and the refugee crisis more generally - the Romanian M&A market flourished in 2017. The level of foreign direct investment, at least in terms of committed capital, increased significantly and the prospects for 2018 are very encouraging. With the largest GDP growth rate across the European Union last year, and a safe forecast of at least 4 percent GDP growth in 2018, Romania is one of the most appealing investment prospects.

What were the main features of the local M&A market in 2017?

2017 showed clearly that the Romanian market stands out among CEE markets with stronger growth opportunities, while a country risk traditionally perceived as high is now looking more and more palatable. In addition, in spite of the general impression of uncertainty given by an often-stumbling public sector, on 1 January 2018 additional tax cuts came into effect, making Romania one of the lowest tax jurisdictions in the EU. The low tax regime favours industrial investment and start-up initiatives equally.

In addition, there are clear signs that the country's efforts to reform the public sector and advance the rule of law will yield palpable results, at least in terms of investors' confidence and their long-term commitment to the Romanian market.

Therefore, I would say that investors are beginning to (re)discover the immense opportunities offered by Romania, whether it be in relation to strategic projects, regional consolidations or fresh starts.

What sectors attracted most of the M&A transactions in Romania last year?

Significant transactions, in number and in value, were carried out in 2017 and many

are ongoing with a very encouraging project pipeline for 2018, in virtually all sectors, from industrial to energy, oil and gas, real estate to agribusiness, in the financial sectors, banking and capital markets, in IT and telecommunications, healthcare and pharma and service sectors more generally.

I would start, though, with the IT businesses as they have for years been a source of national pride, and not without justification. There have been numerous transformations in the industry in recent years and we may say that we now have a strong and mature market that has reached a high degree of sophistication. In 2017, we saw start-ups mushrooming, but also big IT corporations and institutional investors betting on established Romanian IT businesses.

I would then look at what I call the second national economic flagship industry, meaning retail, food and agribusiness. These make up a billion Euro market annually, only in terms of investment and mergers and acquisitions. 2017 was no exception, showing an ever greater appetite from investment funds to bet on the organic growth potential of the Romanian market.

Thirdly, real estate - the construction sector, which posted tremendous growth and a number of landmark projects, new developments and acquisitions - made the headlines in 2017.

Notable moves took place in all oil, gas and energy sub-sectors as well. But to be accurate, one must conclude that significant transactions were successfully implemented across all key industries and service sectors, equally involving institutional investors, strategic players and local entrepreneurs.

What types of deals took place in 2017 on the Romanian market?

We saw all sorts of transactions, investments, divestments, work-outs, ventures and start-ups, as well as consolidations. It really depends on the economic sector, but indeed, the deal making typology is diverse. For example, in the financial sector we are nearing the completion of a half-a-decade consolidation and restructuring process, involving banking and non-banking financial institutions, corporate positions as well as transactions with portfolios of non-performing banking assets. In terms of both value and volume, the recent year's trading of non-performing loan portfolios marked decisively the completion of the work-out efforts of the Romanian commercial banking sector following the financial turmoil of the last decade.

At the other end, in the real estate field, investments and new development projects generated transactions totalling well above EUR 1 billion for the entire market, including key deals in the office and retail sectors, but also in the residential segment. Not to mention the industrial area, where numerous new development and acquisition projects, with a clear consolidation outlook, took place, while also bringing sovereign funds (i.e. Singapore, Abu Dhabi etc.) onto the stage.

Capital markets also showed certain activity, an improvement on the modest average of the past, with a number of successful IPOs, but also secondary offerings, structured and leveraged finance instruments. Corporate bonds will follow suit in the years to come.

EUR 1 billion

the value of transactions for the entire real estate market in 2017

How did the CEE M&A market develop in 2017?

The Hungarian, Polish and Czech markets continued to attract new capital, also supported by the robust growth of the Polish economy, for example, which appeared more convincing to investors than the illiberal tendencies of the Polish and Hungarian political elites. These markets showed growth in M&A activity, posting a double-digit hike in terms of investment volumes, but also in the number of transactions. According to market reports (EMIS M&A Report CEE 2017/2018), there were five deals each exceeding EUR 1 billion, while jurisdictions such as Poland saw EUR 4 billion in transaction volume and more than 100 notable individual deals. But in general, the evolution in the regions has indeed been outstanding and, while the US or Russian capital continued to pour into these economies, the really important new investor in CEE is China. It is not only the CEFC China Energy-Rosneft transaction (which remains a stellar one of course), but the number of deals and the overall sums - billions of Euros - invested by Chinese-funded companies, which demand consideration, present and future.

EUR 4 billion

is the total value of the Polish M&A market in 2017

What do you expect from the local M&A market in 2018?

The Romanian M&A market is expected to flourish in 2018 with a long-prepared and expected large transaction portfolio. Indeed, in many sectors completed consolidation processes and exit scenarios are being considered. In Romania, a number of billion-euro projects are ripe for the picking.

ABOUT

Florian Nitu, Managing Partner, Popovici Nițu Stoica & Asociații

As Head of the Firm's M&A, Real Estate and International Arbitration Practices, Florian Nițu is largely recognized as one of the most experienced commercial lawyers in the market and has been ranked in the past two decades as a leader in his areas of practice by the most reputed market annual surveys, including by Chambers and Partners and Legal500.

Florian has advised large strategic and institutional investors, local entrepreneurs and financial institutions in projects, transactions and claims for cumulated values of billions of Euro.

He is also very experienced in international arbitration, with a special focus on concessions, real estate-construction, energy and corporate disputes, having represented clients in front of ICC, VIAC, LCIA, ICCR - The Court of International Commercial Arbitration in Romania.