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Ekuinas navigates exit strategy snag

BY KHAIRIE HISYAM ALIMAN

As low oil prices and a soft economy put Ekuiti Nasional Bhd's (Ekuinas) plans to exit its investments on pause, the state-owned private equity firm is buckling down while waiting out the challenging market situation. But the clock continues ticking for it to realise the return on some of its investments.

In general, a typical private equity fund's exit horizon is anywhere between four and seven years. According to CEO Syed Yasir Arafat Syed Abd Kadir, Ekuinas' investment horizon is typically between three and five years.

"As an investor, Ekuinas is subject to market volatility, and now is not the most conducive time to exit," he tells *The Edge* in an interview. "A balance between certainty and returns would need to be struck."

The soft market has seen a planned listing of Ekuinas' education business on Bursa Malaysia deferred and divestment of equity interest in a listed company put on hold.

According to Syed Yasir, the first tranche of its direct investments amounting to RM1 billion will expire in end-2017. One of the investments was offshore support vessel player Icon Offshore Bhd, in which it held a 42.57% stake as at May 26.

Selling its stake in Icon Offshore and exiting at this time is a challenging endeavour as its share price has fallen 84% from its initial public offering (IPO) price of RM1.85. It closed last Friday at 30.5 sen.

Nevertheless, Syed Yasir says, he would not deem Ekuinas' investments as being stuck as the company has realised RM1.4 billion in dividend income, interest income and divestments since 2009. Furthermore, any divestment plans will only be finalised when Ekuinas thinks their investment value has been optimised, he adds.

"Ultimately, you can't time everything right ... it comes down to [having] a sound business foundation, which I think we have demonstrated with Icon Offshore. If you look at the company's performance vis-à-vis the other market players, it has been doing relatively well," Syed Yasir says.

On the listing of Ilmu Education Group Sdn Bhd, which has been delayed since end-2015, he does not rule out the possibility of it happening next year if the market improves over the next six months. However, other options are also being explored as the exit timeline for this education assets is tied to the expiry of Tranche 1, he says.

"A lot of parties have shown interest [in Ilmu], but I don't think we have committed to any of them yet," he says, adding that the ultimate question to tackle is "when we want to exit versus the value that we receive [for the asset]".

Ekuinas has invested RM569.7 million in Ilmu, which it says is one of Malaysia's largest private education groups with seven institutions and almost 35,000 students. According to Ekuinas, Ilmu's revenue in the financial year ended Dec 31, 2015, was RM431.2 million.

Focus on exit strategy

Seven years after the government launched Ekuinas, Syed Yasir believes that now is the right time to look at exiting some of its investments. But the current market sentiment has forced the private equity firm to look at other means of divestment as the IPO route may not be the best option, he says.

"Exiting [our investments] will be a big focus for us over the next few years," says Syed Yasir. "There are a couple of portfolio holdings that are ripe for exit, for example, our food and beverage and casual dining assets."

In the meantime, Ekuinas is intensifying its efforts to create value as a way to counter the market headwinds.

Syed Yasir sees opportunity to scrutinise operational efficiencies, citing Icon Offshore as an example. He says Ekuinas has begun working on cost optimisation ahead of Icon Offshore's peers and before oil prices started tumbling in mid-2014.

However, a prolonged wait to execute its exit plan may hurt its returns. Ekuinas has set a minimum internal rate of return (IRR) target of 12% per year and a maximum of 20%. Given that the IRR is essentially a function of time value of money — the idea being the sooner a sum of money is received, the more valuable it is — a longer wait would lead to a depressed IRR for an investor.

An investment that will come up for exit assessment soon is Orkim Sdn Bhd, a clean petroleum product (CPP) tanker company. Ekuinas is now into its second year of investment in the company with RM416.3 million in capital deployed. The company is doing well, according to Ekuinas.

"What went wrong for a lot of market players is that they went into more volatile segments like chemicals," Syed Yasir says. "The CPP segment is not as sexy but more stable ... there is high defensibility."

He declines to put a timeframe to its exit strategy for Orkim, but says Ekuinas typically looks at a possible exit from an investment by the third year.

Another investment being primed for an IPO is Al-Ikhsan Sports Sdn Bhd, a home-grown bumiputera sportswear retailer that is the fund's first venture into the retail sector. Ekuinas acquired a 35% stake in the company for RM68.6 million in July.

However, the company still has "quite a fair bit" to go before it is ready for listing, Syed Yasir says, adding that it could be in five years' time.

The retailer was founded in 1993 and at present, commands a 36% market share in Malaysia. It has 119 outlets in Peninsular Malaysia. Last year, it posted normalised earnings before interest, taxes, depreciation and amortisation of RM23.2 million on revenue of RM257 million, according to Ekuinas.

"There's room for improvement in terms of its margins. [The focus is to] institute more solid foundations in the company," says Syed Yasir. "What we want to do is ensure it has enough professional managers and its processes and corporate functions are strong enough to support the next level of growth." E

PATRICK GOH/THE EDGE

Notable Ekuinas direct investments

SECTOR	ENTITY	INVESTED CAPITAL (RM MIL)
OSV	Icon Offshore Bhd	470.9
Education	Ilmu Education Group	569.7
Food	Integrated Food Group	160.4
O&G downstream	Orkim Sdn Bhd	416.3
Technology	Tranglo	49.1
Healthcare	MediExpress Group / PM Care Sdn Bhd	75.6
Retail	Al-Ikhsan Sports Sdn Bhd	67.3

Ekuinas divestments to-date

ENTITY	ACQUISITION DATE	DIVESTMENT DATE
Alliance Cosmetics Group	January 2010	August 2016
Tanjung Offshore Bhd	June 2010	November 2012
Konsortium Logistik Bhd	October 2010	October 2013
Burger King Malaysia/Singapore	2011 and 2012	August 2015
San Francisco Coffee	September 2011	December 2015
Icon Offshore	2012	June 2014*

*partial divestment via IPO

Mulling another round of M&A, 12% returns

BY TAN SIEW MUNG

Almost two years after its last oil and gas acquisition, state-owned private equity fund Ekuinas Nasional Bhd is not ruling out another round of mergers and acquisitions to strengthen its O&G portfolio.

"The O&G sector is depressed now but valuations have become more interesting. In this tough period, we have to support [our portfolio] however we can. We are not precluding another round of M&A," says Ekuinas CEO Syed Yasir Arafat. "It is a cyclical business [but] if you time it correctly, the opportunity is still there."

To date, O&G accounts for 40% of Ekuinas' total investment portfolio. M&A aside, the company will continue to invest in O&G, especially sub-segments that are lucrative.

"We can't specify which sub-segments because valuations are low across the board. For now, we want to focus on improving the business and creating value for the companies in our O&G portfolio," says Syed Yasir.

He continues to see opportunities in education after the fund's acquisition of Sapura Resources Bhd's education assets but does not elaborate.

Other new areas the fund will explore are technology and export-based businesses, such as manufacturing and processing. "We want to explore and diversify our portfolios as well. We have been in negotiations on a couple of transactions; some are in the advanced stage, some are preliminary," Syed Yasir comments.

In the technology space, he is eyeing the logistics and payment segments, which are benefiting from an e-commerce boom.

Ekuinas is targeting to invest RM400 million a year but has only committed RM180 million year to date due to the lack of quality investment. "It is not easy to find quality investment and it is getting harder these years," says Syed Yasir.

He also highlights that there are fewer opportunities for Ekuinas to rebalance its portfolio — unlike a public equity fund — as it invests for the longer term and in less liquid assets.

The fund has completed 36 investments since it was set up in 2009, including investments that have been outsourced to other private equity funds.

Moving forward, Ekuinas, whose funding from the government has been halved to RM300 million this year, does not see funding as an issue. It usually gets twice as much each year from the government.

"We have received RM3.9 billion so far. I don't know whether next year we will get any allocation, but as of now, we have sufficient funds to make further investment," he says.

Ekuinas is also maintaining a target gross internal rate of return (IRR) of at least 12% despite the economic downturn.

"This year, the market is expected to remain soft as the O&G industry has yet to recover. On the whole, it will be similar to last year," Yasir says, adding that the fund is still supported by its F&B and education portfolios, which have registered steady growth.

Last year, the low oil price caused Ekuinas' gross IRR to fall to 14.8%, close to its minimum target of 12%, from 19.6% in 2014.