

EkuiNAS CEO says lower startup valuations to spark M&A frenzy



EkuiNAS CEO Syed Yasir Arafat Syed Abd Kadir speaks at DEALSTREETASIA's Asia PE-VC Summit 2018 in Singapore.

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The current market volatility is an opportunity for businesses to pick up distressed assets and seal mergers and acquisitions (M&A), the head of Malaysia's government-linked private equity fund Ekuiti Nasional Bhd said.

"These depressed and volatile times are definitely an opportune time for companies to look into investment in distressed assets. We expect valuations to drop significantly, as the impact of COVID-19 begins to wind its way through the global economy," EkuiNAS CEO Syed Yasir Arafat Abd Kadir told DealstreetAsia in an email interview.

The opportunity is rare, he said, because asset valuations have been on an upward trajectory in the last few years, driven by the ever-increasing dry powder in the region.

"We see this pandemic as an opportunity. Challenging economic and business environment would force businesses to relook at their respective business models as financial robustness is put to the test," Syed Yasir said.

EkuiNAS, he added, has been selective in deploying its capital in the past two to three years, as its focus was mainly on divesting its assets and strengthening its portfolio companies' operations.

Amid the COVID-19 pandemic, the CEO anticipates an M&A frenzy as companies fight for their survival.

“We see this as a great opportunity for firms such as ours which have divested around 50 per cent of our portfolio to reset an aggressively look at opportunities to acquire companies or as bolt-on for our portfolio companies to consolidate and further strengthen their respective positions,” said Syed Yasir.

Last year, the group divested its entire equity interest in private tertiary education provider APIIT Lanka Pvt Ltd at an enterprise value of about 41 million ringgit (\$9.41 million). It also sold its entire 60 per cent stake in third-party claims administrator service providers MediExpress Group and PMCare Sdn Bhd to Japan’s Sumitomo Corporation.

The divestment generated a gross internal rate return (IRR) of 17.5 per cent, and 38.8 per cent for the fund, respectively.

As the only government-linked private equity player in Malaysia, Ekuinas will focus on investing in leading or uniquely positioned home-grown companies in their respective sectors that may suffer a temporary setback as a result of the pandemic.

Indeed, the PE fund strategy for 2020, even prior to the start of the coronavirus outbreak, was to deepen its value creation activities within the portfolio companies to put them on a much stronger footing – financially and operationally.

“This work has taken on even greater urgency since the start of the coronavirus outbreak,” said Syed Yasir.

Since the Malaysian Government implemented the Movement Control Order (MCO) on March 18 due to COVID-19, Ekuinas has engaged with its portfolio companies to quickly identify their key stakeholders and map out their core business processes to ensure the continuity of their business.

“We worked with our portfolio companies’ senior leadership to develop company-specific business continuity plans, including frequent interaction with the respective management teams, to identify, minimise and mitigate any risk,” said Syed Yasir.

According to him, initiatives that are already in place include establishing boundaries of business that are permitted to operate during the MCO period, as well as stabilising operations and supply chain to prioritise stock and inventory.

More importantly, the PE firm has requested its portfolio companies to keep their eyes on their cashflows, ensure their liquidity and cost control are well planned and explore alternative revenue channels and income stream opportunities.

In addition to asking non-essential frontline employees to work from home and introducing working arrangements to establish health and safety guidelines for employees at all levels, its portfolio firms are also engaging with customers to ensure services are not disrupted.

“To monitor the implementation of these initiatives, we scheduled regular weekly calls, and worked with our portfolio companies’ CEOs to ensure rapid response to arising challenges,” said Syed Yasir, as he believes that the swift and decisive response has helped all of the PE fund’s companies to navigate this current period of uncertainty with poise and calm determination.

The fund currently has direct exposure to homegrown companies such as sportswear retailer Al-Ikhsan Sports, desserts and beverages specialist Coolblog Desserts, private education group Cosmopoint, lighting solutions firm Davex (Malaysia), contract manufacturer Flexi Versa, offshore service vessels provider Icon Offshore, tanker operator Orkim, halal meat-based products manufacturer PrimaBaguz, Manhattan Fish Market-owner Revenue Valley, and private higher education institution Unitar International University.

Last year, the fund acquired a 40 per cent stake in web hosting and cloud services provider Exabytes Capital Group for 44 million ringgit (\$10.05 million).

While the recent political turmoil in Malaysia has further impacted investor confidence, Syed Yasir believes that the government’s recent expansive fiscal stance will help shore up the local economy and provide much-needed support for businesses.

“There is still a lot of dry powder out there as a result of cautious investment in the last two years, and we expect that once the dust has settled, there will be a lot of opportunities for judicious deal-making,” he said.

He is of the view that the impact of the global pandemic is unprecedented, and there is no economy globally that was truly prepared for the heightened and urgent attention needed to fight this disease.

Malaysia, as an open economy, has also been dragged by the pandemic and global uncertainty. Its central bank projected the country's economic growth to be between -2 per cent and +0.5 per cent in 2020, affected by weak global demand and supply chain disruptions amid COVID-19.

“We see the current government taking on very bold and decisive measures to protect the national economy from the deleterious effects of the global economic slowdown,” said Syed Yasir.

Since its inception in 2009, Ekuinas has received more than 3.95 billion ringgit (\$900 million) from the Malaysian government and has undertaken investments in 41 companies directly and through its outsourced programme.

Early last year, it launched a 1 billion ringgit (\$230 million) EkuinasDirect (Tranche IV) Fund to invest in local businesses such as education, oil and gas, FMCG, retail and leisure, healthcare and services.

Last year, reports of an impending merger of government-linked funds surfaced as the former Pakatan Harapan-led government tightened its belt and restructured government agencies.

Syed Yasir, however, dismissed any merger talks involving Ekuinas, highlighting that the fund is the only government-linked PE firm that undertakes PE investments directly, with a very small portion of its fund allocated to its outsourced programme.

The PE fund's current outsourced fund managers are Cope Private Equity, Navis, RM Capital Partners, TAEI Partners and Tremendous Asia Partners.

According to the group's annual report, Ekuinas Direct (Tranche II) Fund and Ekuinas Direct (Tranche III) Fund recorded a gross portfolio return of 490.1 million ringgit (\$111.96 million) and 53.5 million ringgit (\$12.22 million), respectively, in 2018, with annualised gross IRR of 14 and 4.5 per cent.

Ekuinas