

# EkuiNAS meeting objectives despite setbacks

BY ESTHER LEE

The Ekuinas Direct (Tranche 1) Fund, a private equity fund managed by Ekuiti Nasional Bhd, achieved a gross portfolio return of RM677.1 million last year, which translates into a gross annualised internal rate of return of 19.6% and a net annualised IRR of 15.3%.

The IRR for 2014 exceeded the long-term minimum annual target return of 12%.

As at Dec 31, 2014, Ekuinas had created RM4.2 billion in bumiputera equity value for its portfolio companies while its total shareholders' value increased by RM5.5 billion.

Ekuinas CEO Datuk Abdul Rahman Ahmad deserves a pat on the back for generating RM677 million in portfolio returns, which include a RM336.5 million gain from the initial public offering of Icon Offshore Bhd.

However, this may not be what matters to Rahman at the moment, considering the investigation into Icon Offshore — the first company floated by the government-linked private equity fund on Bursa Malaysia, in which it currently holds a 42.3% stake.

News that Icon's two top executives had been remanded by the Malaysia Anti-Corruption Commission seems to have cast a shadow on Ekuinas' sterling performance.

"We can't get all the deals right. We made money on Konsortium Logistik Bhd and Icon Offshore, and we lost money on Burger King," Rahman tells *The Edge*.

The loss-making Burger King franchise grabbed the headlines last year when Ekuinas tried to sell it to Brahim's Holdings Bhd. However, the deal fell through.

In spite of the setbacks, Rahman firmly believes that Ekuinas' private equity model is a sustainable one that can generate both commercial and social returns.

In a nutshell, as a private equity fund, Ekuinas provides equity to companies that need fresh capital to grow and eventually undertake a listing exercise.

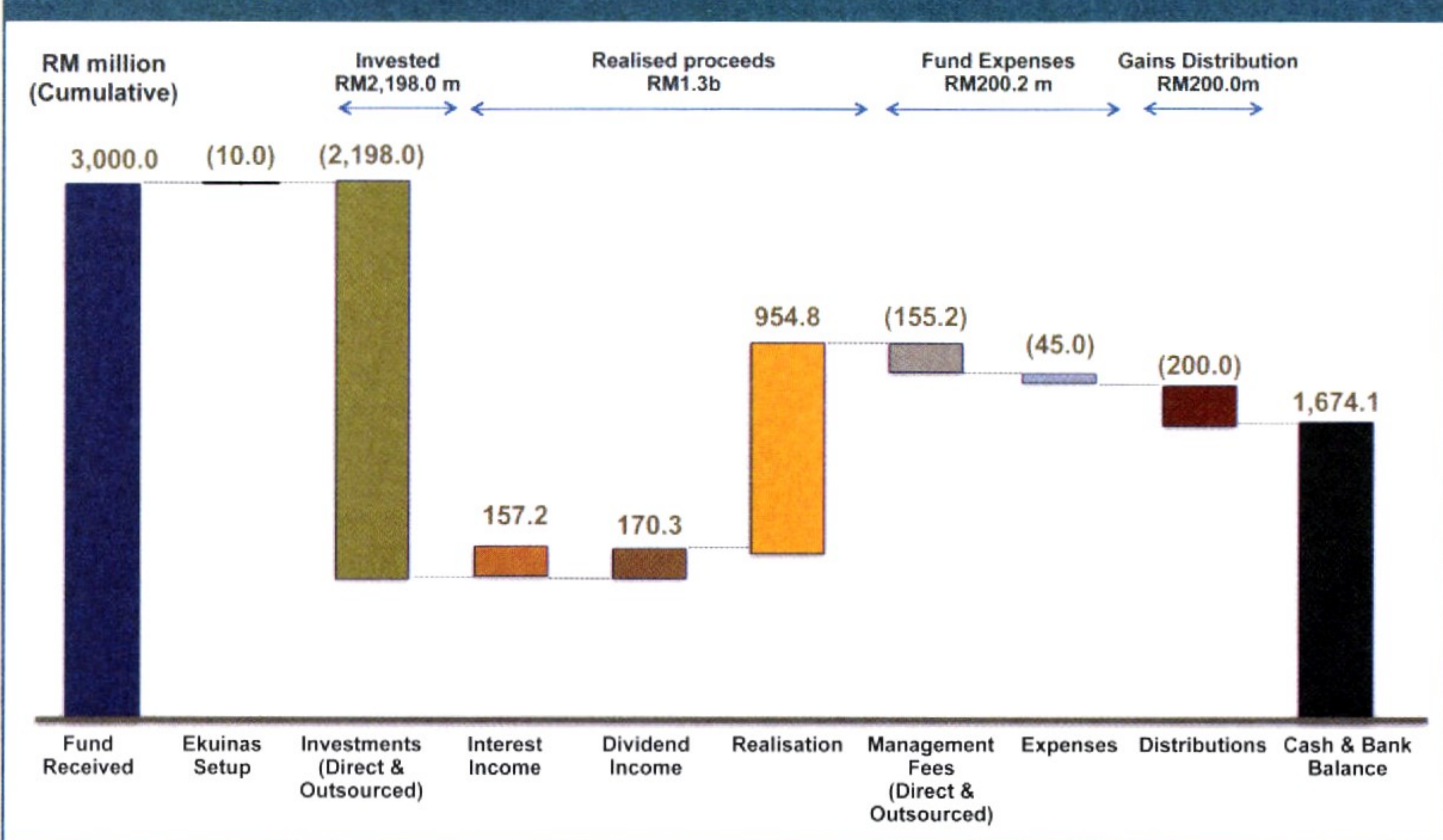
Rahman explains that Ekuinas' objective is to raise bumiputera economic participation that can be defined by equity ownership enhancement and the creation of managers, job opportunities and value for supply chain owners.

"It is about both social and commercial returns. Our job is to generate commercial returns. If we don't deliver in terms of financial results, then the social objective will basically not be achieved," he says.

Ekuinas generally makes three types of investments. The first is growth capital investments where the private equity firm provides support to companies to accelerate growth inorganically.

It also looks to invest in the non-core assets of companies, backing professionals in acquiring businesses that they can run as owner-managers. The third kind of investment it will consider is the buyout of Malaysian companies.

## 2014 funding and utilisation



SUHAIMI YUSUF/THE EDGE

"The idea is that we won't own any of these assets forever. That's why it's a private equity model. We don't hold strategic investments. We buy, we catalyse and we exit [by selling or listing]. Our investment period is three to five years," says Rahman.

Since its establishment in 2009, Ekuinas has received RM3 billion from the government, amounting to 60% of the total allocated under the 10th Malaysia Plan, to fulfil its mandate of enhancing bumiputera economic participation.

The private equity fund has invested RM2.2 billion and made about RM1.3 billion in realised proceeds through dividend income, interest income and divestments, according to its annual report. Management fees and expenses totalled RM200.2 million. Ekuinas has distributed gains of RM200 million to Permodalan Nasional Bhd.

However, a question that is often raised is whether Ekuinas has lost the plot by courting companies and entrepreneurs that already have access to funds as opposed to those that lack accessibility to capital.

For instance, Ekuinas bought a stake in Omni Petromaritime Sdn Bhd, a company that merged with Tanjung Kapal to form Icon Offshore, from Ethos Capital One Sdn Bhd and Arab-Malaysia Private Equity. It acquired the Burger King franchise from CIMB Private Equity.

"We are looking at businesses whose owners are willing to sell or exit," says Rahman.

He stresses that Ekuinas' investment focus is on mid-sized companies, unlike other institutions like Perbadanan Nasional Bhd (PNS), Majlis Amanah Rakyat (MARA) or Perbadanan Usahawan Nasional Bhd (PUNB) that focus on developing small businesses.

Ekuinas' definition of mid-sized companies is those requiring investments of between RM30 million and RM150 million.

"It is virtually impossible to take a small company from scratch and grow it into a market leader. Our job



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— Rahman

is to be a catalyst. What we identify are the mid-sized companies but they may not be market leaders or large companies. That's the space we are in," says Rahman. "Our role is not in small bumiputera companies."

With the government pumping some RM500 million to RM600 million into the fund each year, Ekuinas' use of the money will always be under close scrutiny.

Where Icon Offshore is concerned, Rahman says, "We didn't do the deal because the parties were Ethos. We basically felt that it was an entrepreneurial company founded by the two brothers."

"The Icon investment was started because we were looking at how we could create value for Tanjung Offshore. We felt that these companies should be demerged to create value. So we took out Tanjung Kapal. At that point in time, Captain Has-

san still wanted to grow the company, he was someone we could back. So then, we identify how we can grow the company."

Ekuinas gets about 150 investment proposals a year but only four make the cut, he says.

When it comes to divestment, Ekuinas has to be open to selling its investments to anybody, not just bumiputera owners, because the bottom line is maximising value that can be reinvested, says Rahman, adding that sustainability is not about the ownership of a business but about equity ownership.

When asked if Ekuinas has delivered on its social objectives so far, he observes: "If you ask me whether we have delivered, notwithstanding the situation at Icon, which hopefully we will persevere through, we hope that over time, people will recognise the effort that we have put in."