Ekuinas to look at internal improvements in getting returns

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THE sluggish capital markets have seen the number of initial public offerings dry up in 2015 compared with the previous year, and dealmaking for private equity (PE) funds shrinking to just a handful of transactions. And conditions are not looking any better this year.

But for Ekuiti Nasional Bhd (Ekuinas) chief executive officer Syed Yasir Arafat Syed Abd Kadir, who has been with the PE company since day one, the current market flux presents both challenges and opportunities.

For one, the challenge will be in its plans to acquire new companies and dispose of assets as it winds down its maiden fund, which started operations in 2010.

"It is a tough period. They (entrepreneurs) don't want to be selling during a tough period because valuations are depressed. They will only do that if they are desperate," he tells *StarBizWeek*.

Ekuinas, which has a target of hitting an internal rate of return of 12% per annum, saw its first two main funds deliver a return of 14.8% and 13% last year. The larger third fund, which has only invested around 15% of its money, made a return of 6.3%.

"This year continues to be challenging, but we are working hard to ensure we deliver certain types of returns. Certain things are beyond our control and Icon Offshore Bhd forms a large part of our portfolio, as the oil and gas (O&G) business has been impacted," he says.

Had Icon Offshore's performance been stripped from its funds, the returns would have been better. But Ekuinas is not crying over spilt milk and believes that as conditions do not get any better in the sector, next year might open up avenues for it to engage in acquisitions that will help Icon Offshore's business.

"Now is both an opportunity and a challenge. As it gets prolonged, people will become a little more realistic in terms of their expectations. That needs to happen before any deals get done, especially in the O&G sector," he says.

"That sector is beaten to death and you are starting to see bankruptcies and that is just the start. In that sector, parentage is the key because there is only so much an entreprenuer can withstand in a tough period."

This year has seen deals being done in the retail space and Ekuinas was one of those PE funds that struck a deal. It bought a 36% stake in sports equipment retailer Al-Ikhsan Sports Sdn Bhd, where it invested RM67.3mil.

Ekuinas has cumulatively received RM3.9bil as at the first quarter of this year from the Government, about RM600mil a year over the past four years. It is at a stage where it will start to crystalise some of its investments.

Of that money, RM3.5bil has been allocated. Syed Yasir says there is a likelihood that Ekuinas will reduce the amount it wants to outsource. It plans to invest RM1bil with external PE companies, but in all likelihood will cut that amount.

Lessons learnt

Since its inception, Ekuinas has fully divested its stakes in companies such as Konsortium Logistik Bhd (KLB) and Alliance Cosmetics Group (ACG). In such cases, it made a profit, but the PE fund has incurred losses from its sale of Burger King and San Francisco Coffee.

The lessons learnt from its ownership of stakes in such companies have been invaluable as input for future investments.

"We didn't make a lot of money from that, but we did learn a lot from ACG. It was our first investment and we had a minority interest in that. We learnt how other PE funds make their investments and how they execute that investment plan," he says.

The trouble in its food business has led to the decision to disband the food group under Ekuinas. "For the food and beverage group, it is a more challenging and diverse business between quick service restaurants (QSR) and fine dining, where there is little synergy. Procurement and management is diverse," he says of the lesson learnt from ownership of that business.

For Revenue Valley Group, which owns outlets such as Tony Roma's and The Manhattan Fish Market, operating under a single company and management has proven to be a success.

"For Burger King, the QSR space is a highly

Syed Yasir Arafat: 'This year continues to be challenging, but we are working hard to ensure we deliver certain types of returns.'

competitive one. If you are not the market leader and you are trying to build a presence, it is not going to be easy.

"We learnt a lot from the food group. You cannot underestimate challenges and you have to factor in for mistakes as you grow. The number of stores that will not be doing well increases as the number of stores grows. Your working capital is going to be stretched," he says.

The other troubled investment, the one in Tanjung Offshore Bhd, was salvaged as it gave Ekuinas the platform to create Icon Offshore.

"Value was created differently in these investments," he says.

For one, the acquisition of KLB taught Ekuinas that little will go wrong if it purchases a market leader.

Ekuinas now is on the hunt for new acquisitions, but has found that there is still a big gap between valuations and expectations.

"For one, valuations have to become more realistic before deals get matched," he says.

The current period of low commodity prices should drive more deals. The other is succession planning.

"The third generation is not interested in manufacturing or industrial products. A lot of people will pare down their interests," he says on the catalysts for future deals. The other driver will be the need for entrepreneurs to seek growth capital. "We have a combination of factors that will drive deals going forward."

As it looks for new acquisitions, Syed Yasir's priority as the new CEO for Ekuinas will be to tweak internal processeses and execution within the company.

"We will focus quite heavily on value creation within our companies. We have always been doing that and we want to intensify those efforts so our companies do better than the market," he says.

Syed Yasir also wants to focus on exiting some of its assets, as its first fund was launched in 2010 and is coming up to maturity.

"We will also look for more minority or pipe deals (meaning buying shares in a listed company)," he says. The planned listing of its Ilmu Education Group has been put on hold due to the weak market conditions.

Getting the job done

Ekuinas' prime motivation is to increase bumiputra participation in corporate Malaysia, while developing the companies in its stable.

To do that, it will continue to practise discipline when making an investment. As Syed Yasir puts it, "to ensure we put proper commercial lens on it".

"What we want to do is create the next generation of Malaysian companies. Ultimately, help companies grow in size," he says.

He says there are different ways to increase bumiputra ownership. The first is through ownership and the second is through management. Third is employment and the last is to establish a sustainable supply chain.

Ekuinas has core areas it wants to invest in, but is not limited to just such investments. It will not invest in sin sectors or real estate but has branched its investments into the tech space with its investment in Tranglo Sdn Bhd, a cross mobile money remittance services company.

"While the risk is there, it is something we cannot ignore. Five years ago, we would not touch it, but now quite a number of companies have scale and have started making profits," says Syed Yasir.

"The challenge in finding opportunities in this space is finding a winner. Sometimes, it is a zero-sum game and we try to see a unique value opportunity before we invest."