Ekuinas eyeing prospects in manufacturing, technology

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Syed Yasir: We have seen quite a revival in manufacturing but not many have realised it

EKUINAS

Ekuinas' direct investments

NAME	SECTOR	ACQUISITION DATE	CAPITAL INVESTED (RM MIL)	OWNERSHIP (%)
Cosmopoint Group	Education	February 2011	246	90
Revenue Valley Sdn Bhd	F&B	January 2012	82.6	85.8
UNITAR International University	Education	May 2012	58.5	90
Icon Offshore Bhd	O&G	November 2012	484.1	42.4*
PrimaBaguz Sdn Bhd	Food manufacturing	November 2013	40	100
APIIT Lanka	Education	December 2013	32.3	76.5
Coolblog Sdn Bhd	Retail F&B	August 2014	50.8	60
Orkim Sdn Bhd	O&G (transport)	August 2014	346.3	95.5
Tranglo Sdn Bhd	Telecommunications	March 2015	49.1	60
MediExpress Group / PM Care Sdn Bhd	Healthcare	December 2015	79.8	60
Al-Ikhsan Sports	Sports retail	July 2016	68.8	35
Davex (Malaysia) Sdn Bhd	Manufacturing	December 2017	255	100

*Following partial divestment via listing in June 2014

After its RM255 million acquisition of lighting manufacturer Davex (M) Sdn Bhd last December, Ekuiti Nasional Bhd (Ekuinas) is looking for other prospects in a resurgent manufacturing sector.

The government-linked private equity firm expects to close another deal in the sector by mid-year at the latest, CEO Syed Yasir Arafat Syed Abd Kadir tells *The Edge*.

He says manufacturing has seen a revival in recent years and that a growing number of local manufacturers are doing well, riding the strengthening US dollar, among other things. "We started looking at the manufacturing space more aggressively last year. Malaysia is becoming part of the global procurement ecosystem. We have seen quite a revival in manufacturing but not many have realised it."

Syed Yasir singles out precision manufacturing as a sub-segment that excites. "It's interesting because you can pivot your strategy around quickly — your core competence is precision machining, which is not tied to any particular sector or industry."

Also in Ekuinas' sights is the technology sector where the firm is currently assessing prospective acquisitions, but things remain at a preliminary stage.

But technology is not on the company's radar screen solely for acquisitions. It is looking to embed tech capability via digitalisation in its investee companies as part of a digital strategy to create value.

"What we want to do is ensure that there is a digitalisation process in all of our portfolio companies," says Syed Yasir, "because we want to ensure that our portfolio companies will remain relevant in three to five years down the road."

Its interest in manufacturing and technology marks an expanding horizon for Ekuinas, which started with six identified target sectors: oil and gas, education, services, fast-moving consumer goods, healthcare, and retail and leisure.

As at end-2017, Ekuinas had RM3.9 billion in funds under management and it is scheduled to receive another RM150 million under an allocation in Budget 2018.

Ekuinas generally limits its exposure to a sector at about 30% of its fund size, says Syed Yasir.

Its purchase of Davex capped a year of two halves. In January 2017, Ekuinas said it was participating in a tripartite merger that sought to combine UMW Oil & Gas Bhd with its investee companies Icon Offshore Bhd and Orkim Sdn Bhd.

But the proposed merger was called off after it became clear that it would require a heavier capital injection than initially thought.

For Ekuinas, the merger would have been a way to resolve its residual stake in Icon Offshore (see accompanying story). It also signalled Ekuinas' readiness to exit its investment in Orkim, a clean petroleum shipping company.

The private equity firm's investment horizon is typically three to five years as staying too long in any investment would drag down its internal rate of return (IRR), which is a function of time value of money.

Its minimum IRR target is 12% per year.

Ekuinas pumped in RM346.3 million for a 95.5% stake in Orkim back in August 2014. The failed three-way merger was expected to generate an IRR of 16.1% and 1.5 times money multiple from its Orkim investment.

In its financial year ended Dec 31, 2015 (FY2015), Orkim recorded revenue of RM136.38 million and a net profit of RM32.46 million, according to data tracked by RAM Ratings. FY2016 figures were not immediately available.

"Last year, Orkim did well; it saw double-digit expansion in both the top line and bottom line," says Syed Yasir. "And we expect it to continue to do well this year, so we are exploring whether we want to exit now or later."

In order to realise its investments, the private equity firm is looking at alternative options to an initial public offering. "The issue of IPO for private equity like us is that there is too much overhang in the sense that you still have to deal with residual interest in the company itself [post-listing]," observes Syed Yasir.

Orkim is one of Ekuinas' dozen existing direct investments. It is noteworthy that four others have exceeded its five-year investment horizon while another two are approaching that threshold this year.

The delayed exits from some investments, including Icon Offshore, which Ekuinas listed in June 2014, would have dragged down the IRR for its first tranche of direct investments — closed at end-2017 — amounting to RM1 billion.

Syed Yasir is tight-lipped on how much the impact is but concedes that the gross IRR for the first tranche will come in slightly below the 13.1% achieved in 2016.

He says the unrealised investments will be rolled over into other tranches, as is the norm for other private equity funds.

However, more favourable disposals would have offset the impact.

In January this year, Ekuinas sealed its seventh and eighth divestments. The first, on Jan 9 — the sale of APIIT Education Group for an enterprise value of RM725 million — generated an IRR of 22.3% and money multiple of 1.6 times invested capital.

The other was the sale of Tenby Education Group, which generated an IRR of 45.7% and money multiple of 2.5 times invested capital.

Ekuinas was unable to disclose further pricing details due to confidentiality arrangements. It had invested in APIIT Education Group in February 2011 and Tenby in March 2015.

While the overall market environment for exits has improved in the past couple of years, Syed Yasir says Ekuinas is not in a hurry as it is seeking to maximise returns.

Speaking generally, he expects many of the company's investments to take at least another year or two of work before they are ripe for exit.

He stresses that a lot of work has gone into strengthening the foundations of the investee companies and creating further value. "It's a lot of work and I think the results would show in two to three years' time. This year, we will spend a lot of time in terms of generating operating value for our portfolio companies."

He describes Cosmopoint Group, which Ekuinas had bought into in 2011, as a "challenging investment". The education group is currently at break-even point and Ekuinas is working at further reorganisation