

The hybrid

Ekuiнас represents a mixed bag, serving as GP and LP and pursuing social and economic objectives. CEO Syed Yasir Arafat Syed Abd Kadir explains how the group is making a difference in Malaysian private equity

MALAYSIA'S EKUINAS IS DIFFICULT TO

define: part GP, with a portfolio of 29 direct investors; part LP, holding positions in six funds that have in turn backed 24 companies; and part development finance institution, with a mandate to promote economic participation by indigenous Malaysians.

"I am not sure we have any comparable in private equity regionally or globally because we have a social as well as a financial mandate," says Syed Yasir Arafat Syed Abd Kadir, CEO of Ekuiнас. "If you think historically, perhaps the closest is 3i Group when it was set up after the Second World War by the British government to catalyze the economy by providing funding to small and medium-sized industries."

Given the requirement only to commit capital to Malaysia-based businesses, the government-owned investment group's exposure tracks the fabric of the local economy. As such, 41% of the MYR2.6 billion (\$608 million) Ekuiнас has deployed across its direct investments in oil and gas, chiefly offshore support vessel provider Icon Offshore and tanker operator Orkim. Despite the commodities downturn, Syed Yasir Arafat remains upbeat on these deals.

"Oil and gas is cyclical, we knew that when we went in," he says. "And you need to separate the two companies: Icon focuses more on the upstream, where the environment has been challenging; Orkim is more downstream transportation, which has been fairly stable. On balance, neither are bad investments. We took Icon public, partially divested through the IPO, and hold a residual stake."

Market leaders

Ekuiнас continues to look for opportunities in oil and gas, but its direct investment activity over the last 12 months – amounting to MYR123.2 million in total – has concentrated on consumer and services. The group has backed Al-Ikhsan Sports, Malaysia's leading sportswear retailer, bought majority stakes in MediExpress Group and PMCare, both of which provide administration services to the healthcare sector, and supported a bolt-on acquisition by its ILMU Education platform.

Education now accounts for 25% of the direct portfolio, second only to oil and gas, but Syed Yasir Arafat describes the investment strategy as simply backing market leaders in fast-growing sectors. "Consumer demand is coming into play but in fragmented markets like Malaysia you have to be careful," he says. "You have to pick the right companies."

This is reflected in Ekuiнас' food and beverage exposure. Two years ago the group sold off the last of its quick service restaurant assets, having abandoned plans to create a food conglomerate because significant additional investment and operational involvement was required to achieve profitability. However, it retains interests in the casual dining space which are seen as having greater growth potential such as the Tony Roma's

would do. Icon, for example, was partially divested two years after the investment at 4-5x."

External activities

Ekuiнас also exited its maiden investment last year, securing a 1.5x return as a 20% stake in Alliance Cosmetics Group was sold to co-investor Navis Capital Partners. This deal predated the creation of the outsourced manager program, of which a dedicated Malaysia fund run by Navis is one of six members. The others are operated by CIMB Private Equity, Tremendous Asia Partners, TAEI Partners, RM Capital Partners, and CMS Opus Private Equity.

These funds have deployed a total of MYR351.6 million on behalf of Ekuiнас since 2011 across two tranches, rising to MYR879.8 million

when contributions from other LPs are included. However, the program remains under review, with Ekuiнас keen to see funds in tranche one deliver returns (the net IRR is currently 8.7%) before launching a new tranche. The challenge for managers is often achieving scale and attracting talent in the relatively shallow Malaysian market.

"A lot of initiatives are driven by the government and we don't see

pension funds, high net worth individuals or other LPs investing heavily in private equity in Malaysia," says Syed Yasir Arafat. "And to attract talent, funds need to be sizeable, as this dictates how much you earn in fees."

Ekuiнас also faces talent issues of its own, having increased its operational involvement in direct investments in recent years. This led to the creation of a six-strong portfolio monitoring division in 2014 that works alongside the 21-person direct investment team. Syed Yasir Arafat sees ILMU Education as the best example of Ekuiнас' value-add capabilities in action, particularly in terms ensuring good governance and enabling better decision making.

"We only get involved when it's necessary to do so – management is spot on in many areas," he says. "But in a lot of companies, decisions are based on gut feeling or experience. We use our data to help them develop a more scientific approach, providing a check and balance to that instinct." ▀

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The total value of Ekuiнас' committed investments was MYR3 billion as of the end of 2016 across both the direct and outsourced manager programs, while aggregate funds under management stood at MYR4.1 billion. The performance of the portfolio over the last 12 months has been stronger than ever before, with a gross return of MYR918.7 million, most coming from the first two of three direct tranches, which comprise investments made between 2010 and 2014. The net IRR on these tranches is 9.4% and 12.7%, respectively.

"If you remove the oil and gas – and particularly Icon – from the equation, the overall EBITDA of our portfolio companies continued to grow," says Syed Yasir Arafat. "We have a fairly healthy realized return on our investments as well. For tranche one, about 70% of our returns are realized returns, not based on fair value or fair value adjustment. That helps us in terms of locking in returns earlier than most PE firms