Malaysia's Ekuinas open to foreign investments via portfolio of companies

Malaysia's government-linked private equity fund management company Ekuiti Nasional Berhad (Ekuinas) is open to foreign investments via its portfolio of companies, its chief executive officer Syed Yasir Arafat Syed Abd Kadir said.

"Who knows? I mean, in the future [it might happen]. At the moment, the mandate is that we restrict our investments in Malaysia but that doesn't preclude us from making an acquisition via our portfolio of companies to invest out of Malaysia.

"For example, if Davex or Flexi Versa Group found a target that is out of Malaysia, say Thailand or the Philippines, they are free to acquire those targets in those countries.

"It's just that we cannot make unilateral investments outside of Malaysia. We are always on the lookout for deals and hopefully we'll be able to announce once it materialises," he told DEALSTREETASIA on the sidelines of a conference to release Ekuinas' annual report for 2017.

Since last year, Ekuinas has been venturing out of its six initial target investment sectors – education, fast-moving consumer goods (FMCG), oil and gas, retail, healthcare and services. This April, it acquired a controlling stake in electronic turnkey and components manufacturer Flexi Versa Group and in December last year, it acquired homegrown lighting design and consultancy firm Davex.

"We see a lot of opportunities in the manufacturing sector - it's an interesting space. Malaysia has become a fairly attractive manufacturing hub for many MNCs. Many manufacturing companies are migrating to Industrial Revolution 4.0 and I think it'll be an interesting time for the sector.

“I believe that us buying into the manufacturing sector will give an interesting spin to it. It (Flexi Versa) won’t be the last [manufacturing company] that we invest in but we are also mindful of the concentration risk as well,” said Syed Yasir.

He added that Ekuinas is looking to divest one of the companies backed by its Fund II without naming the company. Fund II's portfolio comprises Icon Offshore Berhad, APIIT Lanka, Primabaguz, Revenue Valley, Coolblog, Orkim and Tranglo.

On Ekuinas’ education portfolio companies Cosmopoint and KLMU, Syed Yasir said that it is still too early to divest either of them.

“We are exploring all possibilities with them. There is still a lot of revenue that could be gained from these investments, so we are keener towards possibilities including a strategic collaboration or merger with another education group,” he said.

On Icon, Syed Yasir said Ekuinas will look into restructuring the balance sheet of the offshore support vessel provider to strengthen its footing.

“We are exploring all angles, although the best option is to dispose of some vessels but the market is very depressed [at the moment],” he said. Ekuinas currently holds a 42.3 per cent stake in Icon.

For the financial year ended December 31, 2017, Ekuinas recorded a Gross Portfolio Return of RM476.7 million for its maiden fund – Ekuinas Direct Tranche I Fund, translating to annualised gross Internal Rate of Return (IRR) of 10.1 per cent and net IRR of 6.5 per cent.

Its Direct Tranche 2 Fund recorded a Gross Portfolio Return of RM391.7 million, achieving annualised gross IRR and net IRR of 14.6 per cent and 10.2 per cent, respectively. Meanwhile, Direct Tranche III Fund achieved Gross Portfolio Return of RM53.9 million with an annualised gross IRR of 10.7 per cent.

Ekuinas chairman Raja Arshad Raja Uda said Ekuinas' Fund I has outperformed regional players, according to the benchmarking methods by Hong Kong-based Centre of Asia Private Equity Research Ltd (CAPER).

The number of direct and outsourced investments increased to 58 from 53 in FY2017 while committed investment went up tpRM3.6 billion compared to RM3 billion in 2016. To date, Ekuinas has recorded total realisation proceeds amounting to RM2.3 billion from divestment activities, dividend income and interest income.

Moving forward, Raja Arshad said the state-owned PE fund foresees 2018 to be another challenging year for the market due to internal and external factors such as changes in the global economic and business landscape brought by megafunds, Industrial Revolution 4.0 and technology disruption.

Q&A with Ekuinas CEO Syed Yasir Arafat Syed Abd Kadir
How has the PE landscape evolved in Malaysia?

It definitely has evolved positively. Ever since we started our operations in 2009, I think we have successfully created that awareness. The term 'private equity' is no longer a strange term for many people.

When we first started, people looked at Ekuinas as a government capital entity – an avenue for them to get contracts. But that perception has changed over time, and it is a change for the better. People actually recognise us for adding value to their company and see us beyond a capital provider. And those are the things that are positive for us.

The conversation is no longer about "what do I get from the government if I have Ekuinas on board?" – which was a big part of the conversation when we first started. What is unique about us is that we have to announce our activities – be it investments or divestments – that itself created a lot of awareness among the public because a lot of PE firms conduct deals across the region but they don't make announcements. This makes our name more familiar to the man on the street.

Do you see the entry of regional PE players posing a competition to Ekuinas?

It does, it creates competition but we feel that this is healthy to a certain extent. A lot of people will then have many different PE approaches to a particular company where the selling point of each PE firm will be different, so people will know and evaluate their expectations.

Being Malaysian and local, we understand the local culture, how things work, how to push things and how not to be in conflicted situations, and how to work things out to ensure all interests are aligned. I think it's important.

You mentioned that you are also looking to invest in the technology sector. What kind of tech companies are you looking at – are they startups such as Grab or Go-Jek?

We can't invest in startups, and I don't think our investment profile suits startups that are going to burn a lot of cash. So, we are looking at tech with a more steady kind of situation. So, it can be services that are effectively serving the old economy. I think that is more suitable for us because those companies have earnings, revenue growth and so forth. Just pure tech, which is still in a very early stage, it's going to be a challenge for us.

What factors do you look into before you make an investment in a company?

From our perspective, the industry itself, the size of the industry, the landscape, the company – their market stance as we tend to prefer [companies with] market leadership which is a lot easier [for us] to add value and not starting from ground zero, so that you have a foundation to build on. Decent, well-rounded management.

We are also looking at abilities in terms of market due diligence, identifying value creation opportunity in that company as well as the ability to exit the company. Some businesses may be good, but looking at the M&A activities that are happening in that particular industry, maybe it's going to be fairly difficult to exit. So we do all of that before we look at investing in a company.

Is Ekuinas going to be affected by the shifting political landscape?

Too early to tell if Ekuinas will be affected by the different political landscape. It's business as usual for us. I don't think we have an issue of transparency – we are the only entity in the league or in the region even – that publishes an annual report. It's a quality annual report and we are audited by PwC, so I don't really see a problem.

By Ka Kay Lum