

Mulling another round of M&A, 12% returns

BY **TAN SIEW MUNG**

Almost two years after its last oil and gas acquisition, state-owned private equity fund Ekuinas Nasional Bhd is not ruling out another round of mergers and acquisitions to strengthen its O&G portfolio.

"The O&G sector is depressed now but valuations have become more interesting. In this tough period, we have to support [our portfolio] however we can. We are not precluding another round of M&A," says Ekuinas CEO Syed Yasir Arafat. "It is a cyclical business [but] if you time it correctly, the opportunity is still there."

To date, O&G accounts for 40% of Ekuinas' total investment portfolio. M&A aside, the company will continue to invest in O&G, especially sub-segments that are lucrative.

"We can't specify which sub-segments because valuations are low across the board. For now, we want to focus on improving the business and creating value for the companies in our O&G portfolio," says Syed Yasir.

He continues to see opportunities in education after the fund's acquisition of Sapura Resources Bhd's education assets but does not elaborate.

Other new areas the fund will explore are technology and export-based businesses, such as manufacturing and processing. "We want to explore and diversify our portfolios as well. We have been in negotiations on a couple of transactions; some are in the advanced stage, some are preliminary," Syed Yasir comments.

In the technology space, he is eyeing the logistics and payment segments, which are benefiting from an e-commerce boom.

Ekuinas is targeting to invest RM400 million a year but has only committed RM180 million year to date due to the lack of quality investment. "It is not easy to find quality investment and it is getting harder these years," says Syed Yasir.

He also highlights that there are fewer opportunities for Ekuinas to rebalance its portfolio — unlike a public equity fund — as it invests for the longer term and in less liquid assets.

The fund has completed 36 investments since it was set up in 2009, including investments that have been outsourced to other private equity funds.

Moving forward, Ekuinas, whose funding from the government has been halved to RM300 million this year, does not see funding as an issue. It usually gets twice as much each year from the government.

"We have received RM3.9 billion so far. I don't know whether next year we will get any allocation, but as of now, we have sufficient funds to make further investment," he says.

Ekuinas is also maintaining a target gross internal rate of return (IRR) of at least 12% despite the economic downturn.

"This year, the market is expected to remain soft as the O&G industry has yet to recover. On the whole, it will be similar to last year," Yasir says, adding that the fund is still supported by its F&B and education portfolios, which have registered steady growth.

Last year, the low oil price caused Ekuinas' gross IRR to fall to 14.8%, close to its minimum target of 12%, from 19.6% in 2014.