

EKUINAS LOOKS TO DIVERSIFICATION TO BOOST RETURNS

THE pursuit of returns has always been objective number one for any fund, and for Ekuiti Nasional Bhd (Ekuinas), its targets are the same but with a little twist.

Deriving returns for big government-linked funds has always been at the mercy of the capital markets but for Ekuinas, the performance of stocks and bonds has some but little influence on how its funds performs.

As an investor in companies, Ekuinas' returns has been stitched to the performance of the companies it invests in but they are mostly privately-owned businesses. As its companies make money, so does its funds in going towards meeting its internal rate of return (IRR) of 12% per annum.

Since its inception a few years ago, Ekuinas has launched three funds. Ekuinas Direct (Tranche I) Fund started its investments in 2010 with RM1bil and Ekuinas Direct (Tranche II) Fund commenced in 2012 with RM1bil. Money allocated for both those funds has been fully deployed. Ekuinas Direct (Tranche III) Fund, launched in 2014, has a size of RM1.5bil and 20% of that money has been utilised.

It has crystallised 70% of its investments in Tranche I and this year, Ekuinas is set to sell the bulk of what is remaining in the first fund.

"For Tranche I, 70% of our investments are crystallised so from that perspective, there is not much we can do to really uplift the overall IRR. It will depend on the crystallisation of the balance 30% of the fund. While there is not much room for an uplift, the defensiveness of the IRR is better because a lot of the returns have already been locked in. The IRR will depend on the timing of when those assets will be completed," says Ekuinas CEO Syed Yasir Arafat Syed Abd Kadir.

Tranche 1 achieved an IRR of 13.1% last year and is slated to sell its vast investments in its education and food groups. Syed Yasir says a trade sale for both of those units is in the works and will likely be completed this year. Under Tranche I, Ekuinas has invested RM646.8mil in its education group and



Alternative sector: Syed Yasir says Ekuinas will also look at companies in the services sector.

RM160.4mil in its food group. Both groups showed an improvement in revenue and profit last year.

A trade sale is the preferred route for Ekuinas to dispose of those assets after it abandoned plans for an initial public offering (IPO) on the stock market. Syed Yasir explains that a trade sale was chosen as Ekuinas would not retain a residual stake in those companies unlike an IPO where it will be left with some shareholding in the company.

The other reason is that the performance of the stock market, until this year, has not been encouraging, thus clamping possible returns to the company.

For Tranche II, although 41% of its investments were in the oil and gas (O&G) business, the fund returned an IRR of 18.1% last year. While that sector has been battered over the past few years, Syed Yasir says 80% of the money invested in O&G under that fund has been in Orkim Sdn Bhd, which is profitable and involved in the downstream

business in the O&G business.

Ekuinas is confident of the performance of Orkim and expects that company to show growth in revenue and profit this year.

"The IRR will depend on the market performance because a lot of our investments in Tranche II is in O&G. That depends on the sector outlook and whether it is going to be challenging throughout this year. Nonetheless, on the balance of probability, it is going to be okay. I believe it is still going to track double digit," says Syed Yasir on the performance of Tranche II IRR this year.

As Tranche III is just 20% invested, what Ekuinas wants with that fund is for it to be different from the other two funds it has. Having a fund with fresh capital ready for deployment gives the private equity company an opportunity to diversify its businesses into sectors that will be new to the fund.

Syed Yasir says Ekuinas is targeting investments in the manufacturing segment for its third fund in order to rebalance its funds.

"For Tranche III, we have started diversifying in terms of the industry or sector that we look at. We are slowly looking at increasing manufacturing investments. There is a fair bit more of that sector coming to the market.

"We are also looking at consumer related as well as services. I think we wanted to move away from our traditional portfolio because we have invested heavily in education as well as O&G. It gives us an opportunity to look at other sectors and the constitution of Tranche III assets will be a lot more diversified," he says.

Apart from manufacturing companies, Ekuinas will also look at companies that are involved in the services sector. The private equity company is, furthermore, open to doing deals where it will buy a stake in the listed company.

"We think there is a fair bit of opportunities there," he says, adding that such a deal will ensure selling will be easier when it is time to do so.

"It is important because different segments will be affected by different factors. We don't want any market or systemic risk in certain sectors will ultimately dilute returns in any funds. Having a diversified portfolio ensures risks are managed."

Finding quality assets though in the new sectors will not be easy. With opportunities limited and asking valuations on the frothy side, getting the right deal will be a challenge for Ekuinas which is willing to pay, like most companies, for a company of good quality that is displaying growth.

"Until people are realistic, finding a deal, and there are deals, is going to be a challenge, especially quality deals. People don't mind paying good valuations for quality deals but I think there is a lack of quality deals in the market," says Syed Yasir.

Another element in its search for companies in newer sectors is one where the company will need to have a footprint that is larger than just Malaysia.

"A regional footprint is key and for us, we are exploring to buy companies that have a strong set of management that can execute a regional expansion plan," he says.