MIDEAST MONEY-Private equity revives as regional markets reopen

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* Middle East's PE industry slow to recover from global crisis

* But investor commitments, bank financing grow again

* North Africa drawing interest as confidence in region rises

* Industry more disciplined than it was before 2008

* Family firms still a focus, limiting control of firms

By Mirna Sleiman

DUBAI, May 5 (Reuters) - As Dubai freight-forwarding firm Able Logistics Group began preparing early this year to go public, it conducted a leveraged recapitalisation, taking on fresh bank debt so it could pay a cash dividend to shareholders.

By the standards of developed Western markets, the transaction was routine. But for the Middle East it was an unusually creative deal, a sign that the region's private equity industry is finally building momentum as capital markets unfreeze after the global financial crisis.

"Investors and banks are regaining their appetite for risk," said Haythem Macki, a partner at Bahrain-based private equity firm GrowthGate Capital, which owns 70 percent of Able.

GrowthGate declined to reveal the size of the leveraged recapitalisation but said the dividend from Able, whose annual turnover is about $200 million, meant the private equity firm had earned about 158 percent on its investment since 2007. A flotation of shares in Able is expected around the end of 2014.

Private equity activity in the Middle East largely ground to a halt in 2008 as equity and real estate markets sank. Compared to much of the rest of the world, it has been slow to revive, partly because of risk-averse regional banks and the chilling effect of the 2011 Arab Spring uprisings.

Since last year, however, investors are committing larger sums of money, private equity firms are identifying a wider range of deals and banks are more willing to finance them.

This is good news for Middle Eastern economies which could use the capital and management skills of the private equity industry to become more competitive.

"It's picking up, mainly driven by the recent bull run in capital markets and increased IPO activity in emerging markets and the region," said Karim Moussa, head of private equity at Egypt-based investment bank EFG Hermes.

"We've seen some good PE exits over the past months, and new funds are being raised."

FUNDS

A total of 16 private equity funds raised $860 million in the Middle East and North Africa last year, compared to 18 funds which raised only $400 million in 2012, according to data from Zawya, a Thomson Reuters service.

This pace at which such money is channelled into new investments appears to be increasing. The Abraaj Group expects to close at least 10 private equity deals in 2014, almost double its number in 2013, said Ahmed Badreddine, partner and head of the Middle East and North Africa at the group, which has $7.5 billion of assets under management.

"There is definitely more visibility in most MENA countries compared to previous years. Our investments are long-term, and we see opportunities and growth beyond the short-term difficulties," said Badreddine.

Political turmoil in some North African countries, and their dependence on the weak European economy, hurt business in that region during recent years.

But North Africa is now attracting fresh interest as both politics and the external economic environment stabilise. Last monthg Abraaj bought a stake in Moroccan chocolate maker Kool Food for an undisclosed sum.

"We expect to close at least six deals in North African countries this year, mainly in consumer-focused sectors, education and healthcare," Badreddine said, adding that his company was also in advanced talks to acquire stakes in Saudi Arabian, Turkish and United Arab Emirates firms.

Just as important as the increased supply of investor money is the greater availability of routes for private equity firms to exit their investments, whether through strategic sales to companies or through initial public offers of shares.

In March, Abu Dhabi-based private equity firm Gulf Capital floated oil service vessel operator Gulf Marine Services in London, saying the $300 million IPO meant it was set to earn almost 10 times its original investment. It was one of the Middle East's most lucrative private equity exits, and a positive signal to the rest of the industry.

Gulf Capital is now considering the sale of other assets in its portfolio, including its 56 percent stake in UAE-based water treatment company Metito which it bought eight years ago, chief executive Karim El Solh said last month.

IPO activity has remained sluggish in most Gulf stock markets since the global crisis, but there are signs of improvement; in the last few months Dubai has conducted its first two IPOs in five years.

Bahrain's Investcorp, which has made 11 investments through its $1 billion Gulf Fund, may consider floating its portfolio company L'azurde on the public market, said Mohammed Al-Shroogi, president of Gulf business at Investcorp, which bought a 70 percent stake in the Saudi Arabia-based jeweller in 2009.

"Yes the Middle East capital markets, mainly the Gulf region, are more liquid than they were three to four years ago," he said. "The rich are becoming richer and the millionaires are increasing in numbers."

MATURE

Although the private equity industry is recovering, few people expect the upswing to be as frenzied as the pre-2008 boom. For one thing, fewer players are active; in 2007, at the peak, about 35 funds raised roughly $6 billion.

Industry executives say the market is more disciplined than it was, partly because investors put more emphasis on transparency and corporate governance than they did before the crisis, and partly because banks are not willing to throw financing around as freely.

Also, some investors have become more sophisticated; they prefer co-investing in specific deals rather than just committing large amounts of money to a fund manager.

On the other hand, some of the special characteristics of the Middle East's private equity market are unchanged - especially the importance of family businesses, in a region where many fast-growing firms are either owned by families or by the state.

U.S. private equity giant Carlyle had to work out a new model for its business in the Middle East, which is considerably different from its approach elsewhere in the world, said Firas Nasir, regional head at Carlyle.

In the United States and Europe, Carlyle typically acquires majority stakes or takes full control of companies. But in the Middle East, the most attractive opportunities are those where the owners are not interested in selling control, he said.

“Rather, they’re looking for a hands-on partner that can help them transform their family business into a professional corporation, expand into new markets they may be unfamiliar with, and provide world-class operating practices,” Nasir said.

“Family offices are not interested in selling an enterprise that the family has built over several decades.” So in the Middle East, Carlyle’s model is to become a strategic investor with a strong minority stake of 30-49 percent.

A similar approach was used in March by Emerging Capital Partners, which agreed to buy 33 percent of Atlas Bottling Corp, an Algerian firm which bottles PepsiCo Inc’s drinks, from the local Mehri family.

The investment will help to fund an $80 million expansion plan at Atlas, which will increase its bottling capacity, build a new production site and develop new product categories. ECP will give technical assistance to Atlas management.

Another thing which hasn’t changed is that such deals, when they can be reached, still have the potential to earn higher returns in the Middle East than they would in more developed, less risky private equity markets, executives say.

“Return on investments on PE deals in the Middle East is between 23 and 27 percent. Higher risks bring higher returns,” said Shroogi. “This compares to an average of 16 to 20 percent in more developed markets like the U.S. and Europe.” (Editing by Andrew Torchia)