TheNational

Private equity faces shake-out

Tom Arnold

Last Updated: October 12, 2009 8:19PM UAE / October 12. 2009 4:19PM GMT

Gulf private-equity firms could be forced out of business as investment deals dry up after the global financial crisis.

Fund managers say a shortage of available credit means it may not be until the first quarter of next year before there is a significant pickup in acquisition activity.

"The situation that exists today is nothing short of a crisis for the private-equity industry," said Zulfi Hydari, the co-founder and managing director of HBG Holdings, based in Dubai and Jeddah.

"We are going to see the industry decimated; we are going to see 70 or 80 per cent of the firms literally disappear," Mr. Hydari said yesterday at the SuperReturn private-equity conference in Dubai.

Before the crisis, the Gulf witnessed a private-equity boom as firms took stakes in companies operating across industries from property to petrochemicals. But the downturn has seen the sector contract sharply in the last year.

"Frankly, the industry wasn't really honest with itself or with its main audience, the client family firms, about how it would take a long time to invest this sort of money in the region," said Mr. Hydari.

The private-equity industry has contracted by at least 30 per cent since January as firms ceased private-equity activities or moved into portfolio management as their sole activity, said Yahya Jalil, the senior executive officer and head of private equity at The National Investor.

Mr. Jalil expects this contraction to continue over the next four or five months until credit eases.

"We are starting to see failures and to see larger organizations that have set up subsidiaries shutting them down, and that's been the primary form of shrinkage thus far," he said.

The 126 private-equity firms in the MENA region closed 12 deals in the first nine months of this year, a drop of almost two-thirds compared with the same period last year, according to Gulf Capital, the Abu Dhabi-based private-equity firm.

Globally, private-equity investments have also trickled to a halt, with deals this year falling to a four-year low of US$180 billion (Dh661.12bn), according to data from the global investment banking analysts Dealogic.

Those companies that invested most of their capital during the peak years of 2007 and 2008 could struggle to take advantage of investment opportunities as recovery takes hold in the Gulf.

“A lot of them have run out of dry powder,” said Karim el Solh, the chief executive of Gulf Capital. “It’s a natural evolution of the market.”

Mr. el Solh believes firms should focus on attracting Gulf institutions and international investors to its funds.

“In our region we have the Arab trading mentality,” he said. “A lot of the people went into funds wanting quick exit flips.

“While that may have worked in 2005 and 2006 it’s not going to work in the long term, as you need patient capital which works with you over a number of years.”

tarnald@thenational.ae