

Interview: A closer look at the landmark Arkad restructuring deal

Saudi oil and gas contractor Arkad E&C in 2023 secured majority support from its creditors to restructure SAR3 billion (US\$799.33 million) in liabilities under a court-supervised financial restructuring process. In this interview, Ahmed Mostafa, an executive director at Haykala, the deal's advisor, discusses the significance of this landmark transaction which involved the use of perpetual Sukuk.

Can you tell us a little bit about yourself and how you ended up working on the Arkad restructuring?

My background includes around 20 years of experience in advisory services with extensive expertise in due diligence assignments, sell-side assistance, mergers and acquisitions, and IPO projects. Before I joined Haykala, I worked in various senior roles at KPMG and EY. My work has spanned multiple sectors such as industrial, pharmaceuticals, financial services, technology, real estate and more.

The strong track record of Haykala in advisory services, particularly in restructuring, has been a cornerstone for the successful delivery of the Arkad E&C project. Our hands-on approach, working closely with clients and other consultants, combined with our deep knowledge of the Saudi market, paved the way for this project's success. I am proud to be part of the team that worked on this project, led by Hisham Ashour, the managing director.

Tell us more about Arkad E&C and its total liabilities.

Arkad E&C is a leading oil and gas engineering, procurement and construction contractor in Saudi Arabia which has executed hundreds of kilometers of pipeline projects for Saudi Aramco. Its fully owned subsidiary Arkad SpA (formerly Arkad ABB SpA) with its offices in Milan Italy, has executed more than US\$20 billion worth of projects across Europe, Latin America, Asia and Africa with clients like Eni, Shell and Saipem.

Arkad E&C also owns a fleet of unique and specialized equipment needed to execute such pipeline projects in Saudi Arabia and internationally.

The total liabilities owed to the creditors amounted to SAR3 billion. The financial restructuring plan, which includes a full repayment of this balance, has been



approved by both the creditors and the court.

How did Haykala contribute to the success of Arkad's financial restructuring?

Haykala's role as lead advisor was central to Arkad's successful restructuring. As the chief restructuring officer, Haykala orchestrated the process from A-Z: from developing the restructuring strategy and concept; developing the business plan with management; to securing creditor buy-in; and getting an 85% approval rating.

Haykala's deep expertise in financial restructuring and strong relationships with financial institutions and legal professionals ensured that the plan was robust, compliant, and capable of stabilizing Arkad's finances. By guiding Arkad's management and board through complex negotiations and legal processes, Haykala helped the company convert its liabilities into new equity-line financial instruments, optimize costs, and implement a sustainable business plan. This comprehensive approach not only saved Arkad from liquidation but also positioned it for future growth and stability.

With regards to the regulatory environment, how does Arkad's financial restructuring plan compare to

previous regulations and international standards?

Arkad's restructuring plan under the 2018 Saudi Arabian Bankruptcy Law aligns closely with international standards for corporate restructuring, such as Chapter 11 of the US Bankruptcy Code. The law's emphasis on debtor-creditor agreements and court-supervised reorganization provides a modern and structured framework for companies to address financial distress.

Under previous regulations, Arkad might have faced more immediate liquidation without the opportunity for structured reorganization. Under the new law, Arkad was able to convert its debts into equity-like instruments and new debt instruments, helping to stabilize the company's finances and provide a platform for future recovery. This approach ensures fair treatment of creditors while giving the company a chance to resume its operations and contribute to economic development.

What are the key components of Arkad's financial restructuring plan under the 2018 bankruptcy law?

Arkad's restructuring plan includes several key components:

1. **Conversion of liabilities:** Arkad proposed converting its existing liabilities into new financial instruments, including a Murabahah facility agreement and an equity-like perpetual Sukuk linked through a cross-default mechanism. The perpetual Sukuk are bought back by Arkad through a cash sweep mechanism.
2. **Corporate reorganization:** Arkad plans to reorganize its corporate structure by setting up a new holding company to own Arkad E&C and its international subsidiaries. This reorganization aims to improve the company's ability to raise future bank facilities and secure new business.

3. Cost optimization: The company has implemented cost-cutting measures, including employee rationalization, reduction of overhead expenses, and sale of unwanted inventory to improve operational efficiency.
4. Business plan implementation: Arkad developed a 12-year business plan focusing on its core strengths, including restarting pipeline projects, exploring new technologies, and expanding geographically. The plan also includes setting up a new equipment rental business to maximize the value of its existing assets.
5. Creditor engagement: Arkad has invested in securing the support of its creditors, including banks, suppliers, and customers, by presenting a viable plan that offers better returns than liquidation. This was done through multiple rounds of discussion and an iterative negotiation process.

“ The instrument allows for the reclassification of liabilities as equity and enables the company to go out and solicit new businesses ”

Why was perpetual Sukuk considered the ideal tool to help with the Arkad restructuring and how was your interaction with the Capital Market Authority (CMA) in this regard?

Perpetual Sukuk are a tried and tested instrument used in restructuring companies' balance sheets globally. Haykala was the first firm to introduce this instrument to the Saudi market and the broader Middle East. The instrument allows for the reclassification of liabilities as equity and enables the company to go out and solicit new businesses from its clients. It also allows creditors to trade the buy and sell over the counter with ease. With guidance and support from the CMA, Haykala has issued the perpetual Sukuk for Azmeel and is in the process of finalizing the process for Arkad. (F)

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