Interview: Hisham Ashour, managing partner of IMAP Saudi and Haykala

Haykala notably led the restructuring of Azmeel Construction Company to emerge from bankruptcy by converting its debt into a perpetual Sukuk facility. Could you share with us the details of the Sukuk, how it was structured and why Haykala structured it this way?

The key reason was to come up with a restructuring concept which was acceptable to the creditors and the banks but which would enable the company to go back to doing business and take on new projects. The perpetual Sukuk facility (which is a quasi-equity instrument) allows the company to settle its dues over an extended period of time through a cash sweep mechanism in favor of the creditors. This was linked through a cross-default mechanism to the residual debt instrument with the covenants typical of such a transaction. Assets owned by company were pledges in favor of the creditors through a security agent.

Azmeel was able to use the new bankruptcy law in Saudi Arabia to its advantage. How did you navigate it, and do you think other players in the market will follow suit?

We had a lot of support from the trustees (Waleed Al Khaldi and Ghassan Al Majed) as well the Capital Market Authority (CMA) when it came to navigating the legal framework and the regulatory requirements. I think that the existing legal framework is effective and we have received a number of enquiries from companies considering restructuring their business (either in or out of court) and wanted to better understand the approach we took and how perpetual Sukuk work and if it makes sense for them to consider Sukuk in their case. We are always happy to help and engage with companies seeking information on this topic, but generally restructuring does not require a one-size-fits-all approach. What might make sense in one scenario could be adding complexity for no clear gain in another. So it is best to evaluate each business independently to assess what the optimum solution can be.

Aside from restructuring, Haykala offers other services, including debt advisory, mergers and acquisitions and capital markets. Are there any trends you have observed in terms of solutions that your clients need or ask for?

We are seeing lots of activities in the mid- market in Saudi Arabia and the GCC where companies are preparing themselves for an IPO (specifically the Numo market) because of its (1) attractive valuation and (2) light touch regulatory requirements and (3) the ability to transition to the main market after two years subject to meeting some CMA requirements. Direct listing has also been a unique feature to Numo with almost 20–25% of companies having gone public in Numo through a direct listing. The Numo market has had almost 90 companies (including one REIT) listed since its start and trades at an attractive P/E [price-earnings] of around 20 times. Companies which have transitioned to the main market/Tasi have been well received and in some instances trade at a premium versus the broad index. Another strategy which we see gaining traction and becoming quite interesting is the approach of rolling up SMEs into larger more efficient platforms and gaining the benefits of scale. In markets where family businesses are the majority, this can be a great opportunity for value creation and sector consolidation.

What are some challenges in corporate finance that exist in your market, and how do you think they can be overcome?

The corporate finance market continues to evolve rapidly in the region as regulators continue to actively reform and enhance the legal framework, examples of which we have seen recently in the UAE and Saudi Arabia. One particular area which is of great interest is the area of private credit

and alternative (non-bank) financing. This is especially interesting for companies coming out of major restructuring and looking to tap the financial markets for 'new money'. The recent change in Saudi law allows for secondary transactions in the NPL [non-performing loan] space which can open the door for hedge funds and NBFIs [non-bank financial institutions] to step into positions banks are looking to exit and, through new and creative structures, provide much-needed funding for these businesses. Watch this space.

What is your outlook on the demand for Islamic finance in the Saudi sectors you operate in, as well as in the region? What would you like to see more of?

Most companies we work with have a strong requirement for Islamic finance compliant products and structures. In the GCC, we see an ecosystem developing which brings practitioners from different disciplines together to meet this market need. I hope to see a faster adoption of new structures and products which have proven themselves in more developed markets, being adapted and tailored to the local needs of Islamic finance requirements.