


How IMAP Haykala helped Arkad close its landmark \$800 million restructuring deal

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In a major milestone for Saudi Arabia's restructuring scene, contractor Arkad Engineering & Construction last year secured majority support from its creditors to restructure SAR3 billion (\$800 million) in liabilities under a court-supervised process. That complex process was led by IMAP Haykala.

Arkad Engineering & Construction, a leading contractor in Saudi Arabia's oil and gas industry, faced a daunting financial situation with liabilities amounting to SAR3 billion. The company is renowned for its work on pipeline projects for Saudi Aramco, and its subsidiary Arkad has executed projects across Europe, Latin America, Asia, and Africa with a total value exceeding \$20 billion.

Under mounting financial distress, the need for a comprehensive restructuring strategy was evident. An expert team was assembled to strategize and support the financial engineering process, with IMAP Haykala appointed as lead advisor.

The firm's involvement began with the development of a detailed restructuring strategy, which included creating a robust business plan. The plan was comprehensive, aimed at converting existing liabilities into new financial instruments and also on cost optimization plus strategic growth to ensure Arkad's long-term viability.

The restructuring plan adhered to the 2018 Saudi Bankruptcy Law, which aligns closely with international restructuring standards such as the US Chapter 11. This modern regulatory framework emphasizes debtor-creditor agreements and court-supervised reorganization, offering a structured approach to addressing financial distress.

Under previous regulations in Saudi Arabia, Arkad might have faced immediate liquidation without the opportunity for a structured reorganization. The 2018 law provided a more favourable environment, allowing Arkad to convert its debts into equity-like instruments and new debt instruments, thus stabilizing its finances and setting the stage for future recovery and growth.

Perpetual Sukuk

A key component of the restructuring plan was the use of Perpetual Sukuk, a financial instrument that has gained global traction in balance sheet restructuring. At the time, the approach was pioneering (it was just the second time after Azmeel that perpetual Sukuk had been used in the context of restructuring in the region).



Perpetual Sukuk is increasingly gaining traction in balance sheet restructuring

Perpetual Sukuk are a type of Islamic financial instrument that represents a unique blend of equity and debt characteristics. Sukuk, often referred to as Islamic bonds, must adhere to Shariah principles, meaning they do not involve interest payments, which are prohibited in Islamic finance. Instead, Sukuk holders receive returns derived from the performance of underlying assets.

The 'perpetual' aspect of Perpetual Sukuk means that these instruments have no fixed maturity date. Unlike traditional bonds, which must be repaid by a certain date, Perpetual Sukuk continue indefinitely, unless the issuer chooses to redeem them. This indefinite

nature makes them akin to equity, as the issuer is not obligated to return the principal at any specific time.

Perpetual Sukuk are often used in corporate restructuring to strengthen a company's balance sheet. By issuing these instruments, a company can reclassify certain liabilities as equity, thereby reducing its debt burden and improving financial stability.

Hisham Ashour, Managing Partner of IMAP Haykala, explained: "Perpetual Sukuk are advantageous because they allow for the reclassification of liabilities as equity, thereby stabilizing the company's financial standing and facilitating new business opportunities. Additionally, these instruments can be traded easily over the counter, which enhances liquidity and flexibility."

The plan in detail

The restructuring plan for Arkad Engineering & Construction incorporated several key elements:

1) Conversion of Liabilities

Arkad's plan involved transforming existing liabilities into new financial instruments, including a Murabahah facility agreement and perpetual Sukuk linked through a cross-default mechanism. These Sukuk are subject to a cash sweep mechanism, enabling Arkad to repurchase them over time.

2) Corporate Reorganization

The restructuring also included plans for a corporate overhaul, including the establishment of a new holding company to oversee Arkad and its international subsidiaries. This reorganization is designed to enhance the company's ability to raise future bank facilities and attract new business.

3) Cost Optimization

To improve operational efficiency, Arkad implemented significant cost-cutting measures. These included rationalizing the workforce, reducing overhead expenses, and selling surplus inventory.

4) Business Plan Implementation

Arkad developed a comprehensive 12-year business plan focusing on its core strengths, such as resuming pipeline projects, exploring new technologies, and expanding into new markets. The plan also includes launching a new equipment rental business to leverage its existing assets.

5) Creditor Engagement

Engaging creditors was a crucial part of the plan. Arkad worked diligently to secure the support of banks, suppliers, and customers by presenting a viable plan that offered better returns than a liquidation scenario. This involved multiple rounds of discussions and a strategic negotiation process.



Hisham Ashour, Managing Partner of IMAP Haykala

The deal

With a high approval rating among creditors, in 2023 Arkad closed the deal and successfully restructured 100% of its \$800 million debt, utilizing a combination of perpetual sukuk, murabaha loan facilities as payments to banks, creditors, government entities, and employees.

The process of issuing these Sukuk was supported by the Capital Market Authority (CMA), which provided crucial guidance throughout.

“This restructuring case was a major milestone for Saudi Arabia and the region,” said Ashour. “It set a precedent for future restructuring efforts in the region.”

IMAP Haykala

Commenting on the firm’s involvement, Ashour said: “Our role in leading the successful issuance of perpetual Sukuk, followed by the ongoing process for Arkad, demonstrates our expertise in the field, as well as our innovative approach and commitment to effective financial solutions.”

Founded in 2020 by a team of professionals with many years of experience in corporate finance, mergers & acquisitions and restructuring, Haykala is one of the leading mid-market firms in Saudi Arabia. In April 2024, Haykala became a member of IMAP, a global network.

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