

HISHAM ASHOUR



A leading player in Debt Advisory, M&A, Restructuring, Real Estate and Capital Markets in Saudi Arabia, Haykala Advisors & Managers' Managing Director, Mr. Hisham Ashour shares a few insights with our Editor, Martin Kunzmann, on how business in this sector of the market is done in the region.

Q. HOW HAS YOUR BUSINESS DEVELOPED OVER TIME, BRINGING YOU TO WHERE YOU ARE TODAY?

HISHAM: I started Haykala in Riyadh/KSA with my two partners during the Covid lock-down to focus on providing end-to-end support and advice to family-owned businesses. You will recall that many businesses had come to a complete shutdown and started laying off people in the tens of thousands and stopped repaying the banks. The government provided support to help companies going through this critical period but the liquidity issues were growing exponentially. We ended up being at the right place at the right time and have been fortunate enough to have led the biggest debt restructuring transaction in the market, both in and out of court in excess of US\$ 3.5 billion.

Q. DESCRIBE THE BANKING AND NPL SECTOR IN THE REGIONS YOU ARE ACTIVE IN, AND HOW THEY DIFFER FROM THE EUROPEAN MARKET IN TERMS OF ATTITUDES, OPERATIONS AND VOLUMES

HISHAM: The GCC (Gulf Cooperation Council) economy is one of the top 10 economies by size. It is expected to grow at an accelerated pace in the coming 15 years, becoming comparable in size to the economy of Japan (source: EY report). The

banking market reflects this (measured in bank assets) but is a more lucrative market with ROEs (12%) significantly above the global average of 9-10% (source CIQ). This allows local banks to take aggressive provisions on NPLs (in some cases write-offs) and continue to manage the NPLs off the balance sheets. Despite this and looking at publicly available data from listed banks, NPLs in the GCC remain at twice the global average.

Q. HAYKALA WAS RECENTLY INVOLVED IN A LARGE RESTRUCTURING - THE AZMEEL PERPETUAL SUKUK ISSUANCE. TELL US ABOUT YOUR PARTICIPATION IN THIS TRANSACTION AND WHAT WAS SO SIGNIFICANT ABOUT IT.

HISHAM: Azmeel is a leading construction contractor in Saudi and the GCC, with a long track record of mega projects valued in the billions executed for the likes of Aramco and Sabic amongst others. In 2019 it filed for Financial Restructuring Procedure (FRP) under the new law which was put in place around the same time. Total liability at the date of filing was around US\$ 2bn (SR 6.5bn). Azmeel had significant assets based on real estate and heavy equipment, which is quite unusual for a company of this size in Saudi. This proved to be a bit of a double-edged sword in discussions with creditors early on in the process,



especially since most of the creditors were not in favour of a debt-to-equity conversion. A simple 'amend & extend' approach would have not enabled Azmeel to get back into the lucrative Saudi and GCC contracting market. Haykala then came up with a restructuring concept based on 3 pillars:

- (1)** Converting most of the liabilities to perpetual sukuk (sharia-compliant bonds) linked through a cross-default mechanism to a covenant-heavy debt instrument
- (2)** Move the heavy equipment into a fully owned subsidiary which rents the equipment

to the parent and 3rd parties to maximize utilization and rental income

- (3)** A real estate development company which is focused on maximizing the disposal and/or development of the real estate.

This concept was heavily negotiated with the banks and communicated to all other creditors, which resulted in 86% of creditors (volume-weighted) voting in favour of the plan. The perpetual sukuk structure was new to the market and had not been used before. Haykala also acted as the lead arranger and secured the support and approval of the Saudi Capital Market Authority on this first-to-market instrument.

Q. WE'VE RECENTLY SEEN SIGNIFICANT ECONOMIC AND SOCIETAL CHANGES HAPPENING IN SAUDI LATELY. HOW DOES IT RELATE TO BUSINESS IN YOUR SECTOR OF THE MARKET, AND WHAT MORE CAN WE EXPECT TO SEE?

HISHAM: I have been practising in the region over the last 3 decades and it is very exciting to see how Vision 2030 has resulted in massive economic and social change, led by HRH Mohammed Bin Salman, the Saudi Crown Prince and Prime Minister. (Editor's note: Launched in 2016, Vision 2030 is Saudi Arabia's ambitious roadmap for economic diversification, global engagement, and enhanced quality of life).

I believe we are seeing the tip of the iceberg and that the coming decade will be the 'Saudi Decade' (think about the World Cup 2034 and Expo 2030 as examples). As the former Goldman Sachs CEO put it, it's the equivalent of what happened in China in the 80s. This is playing itself out across all segments of the economy. We are seeing tremendous demand from international contractors wanting to enter the Saudi market, opening doors for investments into local contractors' capital structure (debt & equity). We also see providers of alternative finance starting to explore the markets. At the time of writing this, the PIF (Saudi Sovereign Wealth Fund) invested in a US\$ 250m private credit fund. So, very exciting times are ahead and those who can forge partnerships between international experts and local players will come out ahead.

Q. WHAT DEVELOPMENTS ARE ON THE HORIZON FOR HAYKALA THAT YOU COULD SHARE WITH US?

HISHAM: Over the last 3 decades, we have established deep roots in this market, which gives us access to the main stakeholders whether they are financial institutions, family offices, government entities or regulators. We continue to grow our team on the ground and are evaluating different options for providing much-needed rescue financing to companies coming out of restructuring, which is a segment that struggles for support from the banks.

Q. HOW ARE INVESTORS THINKING ABOUT RETURNS IN THE MARKETS IN WHICH YOU ARE ACTIVE?

HISHAM: Investors are expecting risk adjusted returns in line with other developed markets or a bit less. If you look at how many times IPOs in Saudi are over-subscribed, it will give you a feel of how capital is chasing returns. The NPL/private credit space remains untapped, and the right offering that bridges the gap between local and international expertise will win.

Q. YOU RECENTLY SPOKE ON THE OUTSTANDING MENA PANEL AT DDC'S ATHENS SUMMIT. WHAT ARE YOUR KEY TAKEAWAYS FROM THE PANEL, AND THE EVENT AS A WHOLE?

HISHAM: I found the event to be very helpful and gave me the ability to compare and contrast where we are as a region in relation to other markets in Europe. Personally, I found the Saudi insolvency regime to be on par with best practices in Europe and the US. Banking regulations are constantly being reviewed and updated paving the way for more innovative products to be introduced.

SAR in Billions	Total Assets*	Total NPL	NPL/Total Assets	Return on Equity
World total	485,442	3,788	0.8%	10.7%
GCC	11,784	226	1.9%	12.3%

* all listed banks globally

Source: Capital IQ Nov 2023

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Experienced restructuring and investment professional with a demonstrated track record of working across industries including construction , retail, FMCG, education and health care industry. Skilled in M&A Business Planning, Operations Management and Acquisition Integration. Strong business development track record across the Middle East and Europe