Event Report

"Private Equity in the Middle East and North Africa": A Presentation by Citadel Capital

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On October 16, 2007, Columbia Business School's Young Arab Leaders Association (YALA) welcomed Egypt's Citadel Capital to campus to discuss the nascent private equity industry in the Middle East and North Africa. Hisham El Khazindar, cofounder of Citadel, and Abdalla Elebiary, MBA '01, a principal of the firm, spent over an hour detailing for a lunchtime audience of approximately 50 students private equity trends in the Middle East and North Africa and the particulars surrounding the establishment of Citadel Capital in 2003.

"Private equity is becoming an important asset class," declared Abdalla Elebiary, a Columbia Business School alumnus and an early hire of Citadel Capital. He noted that private equity accounts for 20 percent of global M&A volume and has delivered superior returns to investors relative to average returns on public equities over the past 10 years. "The top quartile of private equity drives superior returns," he said. This top quartile in the United States has delivered 10-year returns of 40 percent, compared with just under 13 percent for all quartiles of private equity combined. Evident during the discussion was the ambition of Mr. Elebiary and Hisham El Khazindar to ensure that Citadel Capital deliver superior returns as a top-quartile private equity player.

As impressive as the growth in private equity has been on a global basis, Mr. Elebiary painted an even rosier picture for private equity in emerging markets. "From 2004 through 2006, private equity funds for emerging markets grew fivefold . . . , and the Middle East limited-partner expected returns exceeded those of the United States by 5.6 percent," he said. As of 2006, the Middle East and North Africa accounted for almost 9 percent of all funds raised for emerging markets, with sub-Saharan Africa accounting for just over 7 percent and emerging markets in Asia accounting for over half of the total. "It's the trend that matters," Mr. Elebiary said, indicating that future inflows of private equity into the Middle East and North Africa and superior returns from these investments in the region will continue. "Fund managers are realizing that these areas can kick-start their funds," he said. "Emerging markets are attracting a lot of attention, and for good reason: the returns are there."

Mr. Elebiary drew some investment distinctions between the three main geographic areas of the Middle East and North Africa: the Gulf region, "where there's a lot of capital chasing more opportunities than there are"; the region that includes the "vibrant economies" of Egypt, Lebanon and Jordan; and the "frontier markets" of the region, such as Libya and Sudan, where there are "a lot of opportunities if you're able to stomach the risk."

Mr. Elebiary attributed part of the growth in private equity funds in the Middle East and North Africa to a relatively new interest on the part of investors in investing oil dollars in the region rather than outside it, given the ongoing political and economic reforms in the United Arab Emirates, Egypt and other countries in the area. Mr. Khazindar cautioned against being too impressed with the mere generation of these funds, however: "Raising money is the easy part. The tough part is investing and achieving returns. The challenge will be for managers to achieve superior returns and to be in the top quartile of the emerging-market division. That's the real challenge."

"Private equity in the Middle East and North Africa is extremely hot," Mr. Khazindar enthused. The success of his firm underscores his point. In 2003, Mr. Khazindar founded Citadel Capital with a colleague from EFG-Hermes, a leading regional investment bank in the Middle East. Although they started the firm with just $300 thousand in seed money, the firm today is worth $1.2 billion. Assets under management total $7 billion, and within two years of Citadel's founding, the firm ranked as the largest private equity firm in its geographic region. "We've had great returns, producing an average IRR of 80 percent," Mr. Khazindar noted.

Citadel's first major investment—in an Egyptian cement manufacturer—produced a 400 percent return for its investors. "We made a bet that regional construction would pick up and it did," Mr. Khazindar said, acknowledging that luck played a part in the outcome of this crucial early transaction, one that in turn helped attract more investors to the firm. "Our primary investor pool," he said, "is in the Mideast region, especially the Gulf and Egypt, but we're now looking to target institutional investors in Europe and the United States as well." Unlike many private equity firms that have a generalist pool of funds for investment opportunities, Citadel raises funds on a deal-by-deal basis. "We raise the money when we need it," Mr. Khazindar noted, adding that Citadel plans to create a large generalist fund in 2008 to accommodate a broader array of investors.

"The firm invests about 10 percent of its own money in each deal," he said, a practice that aligns the incentives of the firm even more tightly with its investors. "We don't just want to be an asset manager but an investor, too," he said, noting that Citadel has been active in a diverse array of investments, including buyouts, turnarounds, consolidation plays and so-called greenfield investments in entirely new businesses. Some of its notable transactions have been with fertilizer, oil and gas, and food-processing companies. Mr. Khazindar attributed his firm's success in part to the availability in the region of capable managers that the firm can place in companies in which it makes substantial investments. "Ten or 15 years ago, there weren't enough capable managers in the region," he said. "The availability today of great people, many of whom have experience with multinationals, is a big asset to the firm."

In response to a student question, Mr. Khazindar emphasized the importance of Arabic language skills for doing business in the Middle East. "At the end of the day, private equity is a local business, and language matters," he said, while acknowledging that much of his day-to-day work is still transacted in English.

"Much of the value of private equity in the Middle East and North Africa is generated by growing companies," Mr. Khazindar said, drawing a distinction between private equity in his operating territory and private equity in the United States. "It's more satisfying and rewarding to create value by growing a business than by stripping businesses, firing people and other forms of cost cutting," he said, referring to common tactics private equity firms use in the United States to create value. "The value we add to our investments is seizing new opportunities around us in an aggressive manner and focusing on growing the businesses."

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