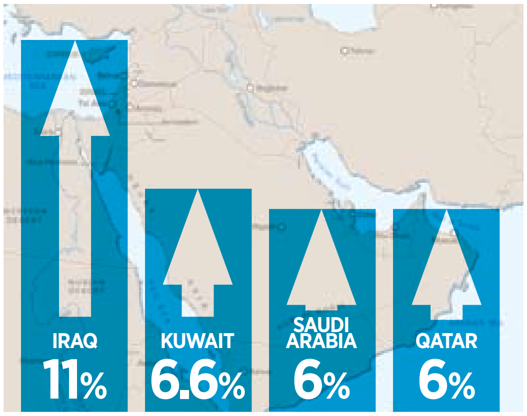
Stars of the Middle East

Despite the challenges of doing business in the Middle East, talented treasurers can shine in the region, says Matthew Hurn

The Middle East is one of the most exciting – and frustrating – regions in the world for treasurers to work in. Earlier this year, the International Monetary Fund (IMF) forecast that economic growth in the Middle East and North Africa would climb to 4.2% in 2012, up from 3.5% in 2011. It predicted expansion of 11% for Iraq, 6.6% for Kuwait and 6% each for Saudi Arabia and Qatar.

It goes without saying that these are the kind of growth rates that the US, Japan and Western Europe can only dream of right now. But while the Middle East remains a region of opportunity, it also presents challenges for professional treasurers who work there. Western markets have been nervous about lending to the region in the wake of the Arab spring, which has resulted in higher borrowing costs. Companies can be bureaucratic, slow moving and weighed down by cumbersome organisational structures. Meanwhile, much of the vast pool of wealth in the region resides in government-owned or government-related entities.

And although many of those entities have exceptionally well-run and well-resourced treasuries, there is still insufficient appreciation in general that the Middle East's continued economic success will rely on robust corporate treasury management and other financial skills. Smaller companies, in particular, often lack adequate financial management and professional education is a fairly new concept in the region, except where a company has to meet international standards – an airline, for example.



The IMF predicted an expansion of 11% for Iraq, 6.6% for Kuwait and 6% each for Saudi Arabia and Qatar

So, the winners of this year's ACT Middle East Deals of the Year Awards are flying the flag for professional treasury in the region and proving the significant difference that skilled treasurers can make to the fortunes of their organisations.

In what has been a generally quiet period for deal making, this year's worthy winners include a pioneering $400m sukuk deal from a Dubai-based shopping centre developer and a $1.3bn bond issuance from an Abu Dhabi energy company. You will be able to read more about the winners on page 10.

I would like to take this opportunity to thank my fellow judges, who are treasurers or advisers working in the Middle East, for their help with evaluating the award entries. You can find out more about them on page 15.

Enjoy this issue of the *Middle East Treasurer*, keep up the good work and let's look forward to even greater treasury excellence in 2013.

Matthew Hurn is chairman, ACT Middle East, and executive director, group treasury, at Mubadala Development Company, the Abu Dhabi government's development company

HOW THE AWARDS WERE JUDGED

THIS IS THE FOURTH YEAR OF THE ACT MIDDLE EAST DEALS OF THE YEAR AWARDS AND THERE WERE FIVE AWARD CATEGORIES IN 2012:

- Treasury funding deal (all methods of capital raising and funding);
- Cash and trade finance deal (cash management, trade finance, supply chain finance, etc);
- Corporate financial management (M&A, risk management activities, treasury organisation);
- Team of the year, large enterprise; and
- Team of the year, small-to-medium enterprise.

THE DEALS AND CORPORATE FINANCIAL MANAGEMENT CATEGORIES WERE JUDGED ACCORDING TO THE CRITERIA OF 'EXCELLENCE IN TREASURY':

- sound treasury management;
- efficient pricing;
- optimal or innovative structure; and
- relative success in prevailing market conditions.

THE TEAMS OF THE YEAR WERE JUDGED ON:

- sound treasury management;
- strong technical knowledge and ability;
- innovation in technology and systems; and
- ability to build strong relationships with the company's bankers and advisers.

Note: In the event a conflict of interest arose during the judging process, the relevant judge withdrew from the process and decision-making.

WHAT THE JUDGES SAID

"MAF stands out for me because it's a family group getting rated and accessing the debt capital market"

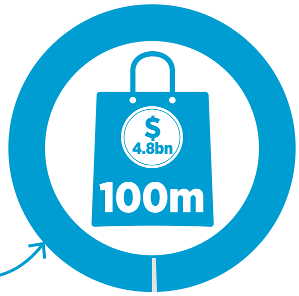
"It's a manifestation of a pretty slick treasury operation"

THE STATS

$4.8bn
MAF's annual turnover

100 million
the number of visitors to MAF shopping centres each year

99.6%
the proportion of MAF that is owned by Mr Majid Al Futtaim



{ CATEGORY TREASURY FUNDING – WINNER MAJID AL FUTTAIM}

SELLING LIKE HOT CAKES

Sukuk issued by retail developer Majid Al Futtaim were top of investors' shopping lists earlier this year

The standout entry in this category came from Dubai-based shopping centre developer Majid Al Futtaim Group (MAF).

Following the 2008/9 financial crisis, MAF decided to diversify its funding sources, envisaging that the company's competent management, financial strength and sound corporate governance would enable it to access the public debt market. As European markets were still cautious about the Middle East, particularly Dubai, MAF opted for Islamic finance instead. It was flooded by interest from Islamic institutions that wanted to lend to it or buy its debt.

In January 2012, MAF issued $400m in sukuk (Islamic bonds) with a five-year tenor. This was MAF's debut issuance and the first by a private UAE-based corporate entity in international markets for over four years. It was also the first US dollar-denominated benchmark sukuk by a corporate since January 2011.

Overall, 14% of the sukuk allocations went to investors in Asia, with 32% going to investors in Europe and 54% to investors in the Middle East. Banks accounted for 52% of the issue, with fund managers snapping up 42% and private banks 6%.

MAF is a private company and the deal demonstrated its ability to access a range of funding and the appeal of its credit story to a broad investor base. Officially priced at 5.9% to 5.95%, the order book quickly grew to more than $1bn, which meant MAF could tightly price the transaction at 5.85%. The sukuk then performed well in the secondary market, with a spread of 428bp over mid-swaps.

This deal was an excellent example of treasury leadership and strategic thinking as it was preceded by months of coherent actions that included: internal alignment of business plans and financing implications; pre-emptively addressing disclosure and governance structure requirements; obtaining a credit rating from Standard & Poor's and Fitch; and a methodical investor education process.

The execution was managed well and involved both Islamic and international banks. The success of the sukuk was such that it enabled MAF to access conventional banking finance on more competitive terms since it showed that the group could access alternative liquidity sources and, at the same time, lengthen the average life of the outstanding debt. Indirectly, MAF's investment grade rating gave out strong positive signals to the banks' credit committees.

Daniele Vecchi, senior vice president (treasury) at MAF, explains what the nine-strong treasury team did to underpin the success of the sukuk. "We presented the credit story well in advance, so most of the investors knew us and, even more importantly, knew our differentiation factors. Secondly, we assembled a team of banks with strong distribution and the ability to support the transaction with leading orders."

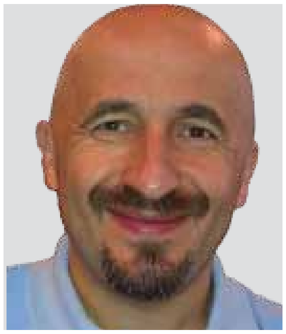
He continues: "We selected an affordable size and we approached the market from a position of strength, meaning that we were not forced to issue. We presented ourselves as committed to the public market, but opportunistic from an execution perspective. Lastly, the sukuk structure was innovative, but straightforward at the same time."

Vecchi says the rating and the sukuk are considered great successes for both MAF and its treasury team. Teamwork was vital, he explains, as treasury liaised with MAF's individual businesses as well as the group's internal legal and finance teams. "MAF deputy treasurer Shrimati Damal and funding expert Irfan Murtaza did most of the heavy lifting in terms of the documentation and the transaction execution," he reveals.

Deal highlights

Issuer: MAF Sukuk Ltd
Obligor: Majid Al Futtaim Properties
Structure: Sukuk wakala
Sukuk assets: Sharia-compliant real estate assets
Guarantor/Sukuk ratings: BBB (Moody's)/BBB (S&P)
Amount: $400m
Interest rate: 5.85% p.a.
Tenor: Five years

MAJID AL FUTTAIM HOLDING



Daniele Vecchi, MAF's senior vice president (treasury)

WHAT THE JUDGES SAID

“This was a very interesting and rare deal. It really got my juices flowing”

THE STATS

40 million
the combined number of passengers carried by Etihad Airways and Air Berlin each year

86
the number of cities served by Etihad Airways, the national airline of the United Arab Emirates

171
the number of destinations served by Air Berlin, Germany’s second-largest airline

{ CATEGORY CASH AND TRADE FINANCE – WINNER ETIHAD AIRWAYS }

READY FOR TAKE-OFF

A groundbreaking funding solution from Etihad Airways gave Air Berlin the financial boost it needed to grow its fleet

If innovation in treasury was what the judges wanted, then they found it in Etihad Airways’ groundbreaking secured shareholders’ loan to Air Berlin.

The transaction was structured as part of Etihad Airways’ wider strategic relationship with Air Berlin and constitutes the shareholders’ loan component of a combined equity and debt investment in the German airline.

The shareholders’ loan was structured as a pre-delivery payment (PDP) loan against Air Berlin’s outstanding aircraft orders. PDPs are initial deposit and progress payments that are paid by airlines to aircraft manufacturers between the date of placing the order and delivery of the aircraft. PDP financing packages are notoriously difficult to secure at the best of times, and have all but disappeared amid the recent financial turmoil. They are further complicated by the requirement for a tri-party agreement with the aircraft manufacturer to ensure that security is perfected and released when aircraft are delivered. Default risks also need to be properly managed between the parties.

In this case, PDP financing was selected as the best funding option since Air Berlin’s aircraft orders and related PDPs provided the appropriate security for Etihad Airways’ investment. (Although other types of assets were also considered.) The treasury teams at Etihad Airways and Air Berlin led the structuring and execution of the transaction, including the negotiations with Boeing. Notably, no external advisers were used.

Under the terms of the deal, which was the first-ever example of direct PDP financing between two airlines, Etihad Airways lent Air Berlin $255m over a five-year period to support its fleet development and network growth. The deal was secured against 71 aircraft due to be delivered between 2013 and 2021.

Deal highlights

Borrower: Air Berlin
Lender: Etihad Airways
Third party: The Boeing Corporation
Structure: PDP financing solution backed by Boeing 737 and Boeing 787 aircraft with customised drawdown and repayment schedules
Amount: $255m
Interest rate: 7.5% p.a. fixed rate on outstanding amount
Tenor: Five years

Ricky Thirion, Etihad Airways group treasurer: Deal is probably a market first

Etihad Airways is now the largest single shareholder in Air Berlin, with a 29% stake. Meanwhile, Air Berlin has shifted its Middle East operation from Dubai to Abu Dhabi, and runs four flights a week between Berlin and the UAE capital. The agreement also includes code-sharing, integrated frequent flyer programmes, mutual maintenance agreements and an integrated Boeing Dreamliner aircraft programme.

Ricky Thirion, Etihad Airways’ group treasurer, explains what makes the deal special: “To our knowledge, this is the first time that one airline has provided a loan to another airline using aircraft orders and PDPs as security. The transaction also has a customised drawdown and repayment schedule, which is not tightly linked to the aircraft deliveries, despite using the aircraft and deposits as security. We are not aware that this has been achieved before.”

Highly commended: Super-Max Group

Super-Max Group, the world’s second-largest razor blade maker, moved its global headquarters to Dubai in 2010 and plans to set up a manufacturing base in the region. Its treasury team succeeded in securing a $30m financing package with a cost-effective fee structure from HSBC to support the group’s growth. This comprised a $28m working capital facility (consisting of $20m in trade finance and $8m in receivable finance) and $2m in treasury facility, vehicle loans and credit card facility. The maximum available tenor is 75 days.

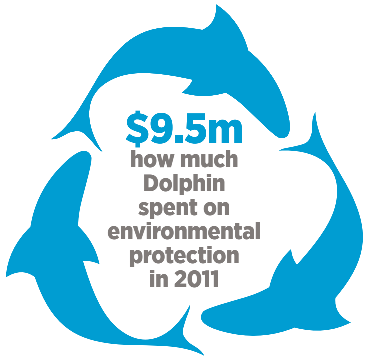
WHAT THE JUDGES SAID

"Dolphin Energy deserves to be congratulated for raising a very substantial sum of money at an efficient price during a volatile financial climate"

THE STATS

244km the length of the Taweelah-Fujairah Pipeline that transports gas to the eastern region of the UAE

$5.5m the amount Dolphin contributed in community investments in 2011



{ CATEGORY CORPORATE FINANCIAL MANAGEMENT – WINNER DOLPHIN ENERGY }

MAKING A SPLASH

Dolphin Energy got its timing right when it took the plunge to raise $1.3bn in senior secured bonds

In a region where state support for resource companies is commonplace, Dolphin Energy stands out for going it alone. In February, Dolphin raised $1.3bn in senior secured project bonds to refinance existing commercial loans and undrawn commitments under the bank facility (worth $835m) as well as raise supplemental debt. This makes it the second-largest project in the region to successfully achieve migration.

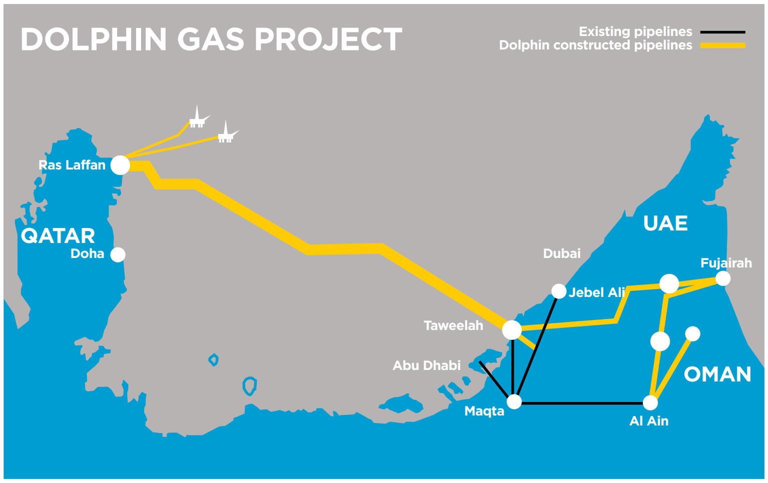
Demand was so strong for the initial $1bn project bonds, priced at 5.50% (the order book was a hefty $8.6bn), that Dolphin was able to issue a further $300m in tap bonds priced at 5.34% a few days later. This second issue garnered a $2bn order book, with both issues maturing in December 2021. Meanwhile, investors in the secondary market seemed equally keen to snap up the bonds: over the first five trading days, the bonds traded up from par to 102.9, while yield declined from 5.5% to 5.13%.

Dolphin timed the bond issuance carefully to take advantage of lower borrowing costs. Last year, a sale of the company's debt was delayed after yields rose in the wake of investor concern over the Arab spring and the European sovereign debt crisis.

Dolphin, which is 51% owned by Abu Dhabi's Mubadala Development Company, produces and processes natural gas from Qatar's North Field and transports it through a subsea pipeline to the UAE.

Mubadala's structured finance and capital markets team played a key role in the refinancing, acting on behalf of the shareholders. Mansour Al Mulla, an adviser in the team, believes the success of the deal owes a lot to the unique characteristics of the project, as well as engaging the debt capital market investor community and easing access to information on the project. Dolphin had previously issued project bonds in 2009 and subsequently kept investors updated on the progress of the project.

"Investors want to understand what they're putting their money in," says Al Mulla. "We were able to tell the right story and provide the right information to investors and we are committed to continuing this collaborative approach." Al Mulla also praises the banks that acted as joint lead managers on the deal, saying they did a "good job at marketing and diversifying the investor base".



Mansour Al Mulla: "We were able to tell the right story and provide the right information to investors"

Deal highlights

Issuer: Dolphin Energy
Structure: Senior secured bond
Guarantor ratings: A1 (Moody's)/ A+ (Fitch)
Amount: $1.3bn
Interest rate: 5.5% p.a./5.34% p.a.
Tenor: 10 years

DOLPHIN ENERGY دولفين للطاقة

Highly commended: Zain KSA

In July, telecoms company Zain KSA pulled off one of the most complicated equity capital market transactions in Saudi Arabian history, when it raised $1.69bn in a rights issue following a cut in capital from SAR 14bn to SAR 4.8bn. It was the largest deal to take place in Saudi Arabia since 2010 and the first time that a capital reduction had been followed by a rights issue that included both the conversion of debt into equity and the issuance of fresh equity while the company's stock continued to trade on the stock exchange. The transaction allowed the company to overhaul its balance sheet by writing off accumulated losses; reducing debt liabilities; increasing equity; expanding and upgrading its network through capital expenditure; and rescheduling its other debt obligations to a comfortable date in the future.

THE STATS

$2.98bn
DP World's turnover in 2011

60+
terminals are operated by DP World across six continents

18
the number of consecutive years that DP World's flagship Jebel Ali facility in Dubai has been voted 'Best Seaport in the Middle East'

80%
of DP World's revenues are generated by container handling

30,000+
people make up DP World's global workforce

{ CATEGORY LARGE TEAM OF THE YEAR – WINNER DP WORLD}

$3BN AND COUNTING...

DP WORLD

Looking for one of the Middle East's top treasury teams? DP World should be your first port of call

The treasury team at international marine terminal operator DP World is regarded as one of the most professional in the Middle East. It triumphed in this category by delivering four large and complex financing deals over a 12-month period from June 2011, raising in excess of $3bn and achieving competitive pricing with innovative structures when markets were at their most resistant.

The team successfully executed two long-dated facilities for development projects at London Gateway and Rotterdam World Gateway. The £1.5bn London Gateway development is the UK's largest private sector infrastructure project, and the treasury team arranged a 20-year project finance facility that brought together European Investment Bank funding schemes and nine commercial banks. For the Rotterdam World Gateway, the team negotiated a 20-year €360m project finance facility involving seven global banks. These two deals appear to be the last of their kind in the current market.

In addition, the team put in place a $1bn five-year revolving corporate credit facility that was heavily oversubscribed and acted in conjunction with an associate company to secure an $850m funding package from both conventional and Islamic sources that involved using DP World shares as security. This last deal was a particular achievement as it involved Islamic banks accepting financial assets as security instead of the hard assets, such as sale and leaseback structures, that Islamic funding providers usually prefer.

On top of all of this, the team actively manages DP World's ongoing global interest rate, FX risks and liquid portfolio of more than $3bn across more than 30 countries while installing a new software system. Busy, busy, busy.

Winning team: DP World's treasury stars include (from left to right) Stephen Bishop, Ahmad Al-hassan and Girish Shenoy

Communication is key to the success of DP World's treasury team, according to Stephen Bishop, senior vice president, treasury. "We're a small team and therefore we talk every day. We're always exchanging ideas and thoughts, and we talk as often as we can with the CFO."

He adds: "We have good working relationships with all the other departments that use our services at corporate level, for example, the business development team."

Like DP World's other professional teams, the treasury enjoys a high profile within the company and respect for supporting the business front line. "We contribute to most of the decisions that need to be made regarding corporate finance and funding the group," says Bishop. "We also contribute to the CFO's thought processes."

The members of DP World's treasury team are: Stephen Bishop (senior vice president, treasury); Girish Shenoy (director, group treasury); Ahmad Al-hassan (assistant group treasurer); Ajay Adhikari (treasury officer); Catherine Mansfield (treasury lawyer); and Marites De Castro (department coordinator).

WHAT THE JUDGES SAID

"This was an outstanding entry from DP World's treasury team, which confirmed its reputation for excellence by securing more than $3bn in finance over a short period of time"

WHAT THE JUDGES SAID

"This is an impressive example of a treasury function leading from the front through modernisation and innovation"

THE STATS

1 Alghanim was recognised as having the best corporate governance in Kuwait in 2012 by the international finance magazine *World Finance*

30+ businesses are owned by Alghanim

12,000 employees from more than 60 different countries are employed by Alghanim

300+ regional and international brands, including Apple and BlackBerry, are affiliated with Alghanim

{ CATEGORY SMALL TEAM OF THE YEAR – WINNER ALGHANIM INDUSTRIES }

CENTRE OF EXCELLENCE

Alghanim's treasury team is helping to transform a Kuwaiti conglomerate

Alghanim Industries is one of the largest privately owned companies in the Middle East, with a presence in many sectors. The Kuwait-based conglomerate has operations in more than 40 countries and its businesses include automotive, retail, engineering, financial services, and insulation and pre-engineered building manufacture, to name a few.

Over the past three years, group treasurer Rob Farrow has overseen the modernisation of Alghanim's treasury to make it more efficient and innovative. The initiatives undertaken by the treasury team include putting in place a corporate policy to manage FX rate risk, using cross-currency swaps to fix the Kuwaiti dinar against the US dollar and thereby fixing some of the company's borrowing for a three- to five-year period, building up medium-term funding facilities (including Islamic and non-bank financing), introducing trade finance solutions and outsourcing cash collections to a third-party service provider. It has also introduced an electronic transaction processing system in place of manual, memo-driven processes. Farrow describes this as a "big win"

The Alghanim 'extended' treasury team (from left to right): Seema Chandrasekharan (credit operations), Sana Javed (senior analyst), Irene Mendoza (systems), Jean Barretto (bank relations), Deepa Raphy (trade finance), Rayane Steitieh (analyst), Cheryl D'Souza (disbursements), Mark Schmitz (CFO), Abdul-Karim, Mahmoud Eranhol, Joachim Fernandes (cashiers), Rob Farrow (group treasurer), Roy Samuel (assistant manager), Rohit Mehra (senior manager), Hassan Fakih (senior analyst) and Urfan Sharif (finance director, ex-treasury)

since it has both improved efficiency and reduced the company's exposure to fraud.

On top of the above, the Alghanim treasury, which is viewed as a centre of excellence within the group, assists with a number of other initiatives, including expansion of the group's presence in Saudi Arabia.

Farrow says that promoting flexibility within the 10-strong treasury team has also been an important achievement. "When people get ingrained in the job, they don't get the knowledge of different roles," he explains. "Flexibility is important so people can cover for each other and carry out different roles. Each member of the team can now comfortably handle all our core operational activities."

He believes that supporting individuals' career development is key to building a successful team. "Some leaders want to keep people and hold on to them and don't let them develop," he says. "We encourage good people to join the team and let them go and move up in other areas of the organisation."

Farrow is adamant that work needs to be satisfying. "The way to get the best out of people is to give them work they enjoy, variety and opportunity. If people are given those things, they perform for you."

The current members of Alghanim's core treasury team are: Rob Farrow (group treasurer); Rohit Mehra (senior manager); Roy Samuel (assistant manager); Jean Barretto (bank relations); Irene Mendoza (systems); Cheryl D'Souza (disbursements); Deepa Raphy (trade finance); Rayane Steitieh (analyst); and treasury officers Elham Younis and Joachim Fernandes.

Alghanim INDUSTRIES

JUDGING PANEL

THE 2012 ACT MIDDLE EAST DEALS OF THE YEAR WERE JUDGED BY:

- Matthew Hurn, executive director, group treasury, Mubadala Development Company (chairman)
- Debashis Dey, banking and finance partner, Clifford Chance (Dubai)
- Peter Matza, engagement director, ACT
- Neil Miller, global head of Islamic finance, KPMG
- Ricky Thirion, vice president treasury, Etihad Airways (UAE)
- Paul Reynolds, managing director and head of debt and equity advisory, Rothschild (UAE)