Private debt warms up in the Middle East

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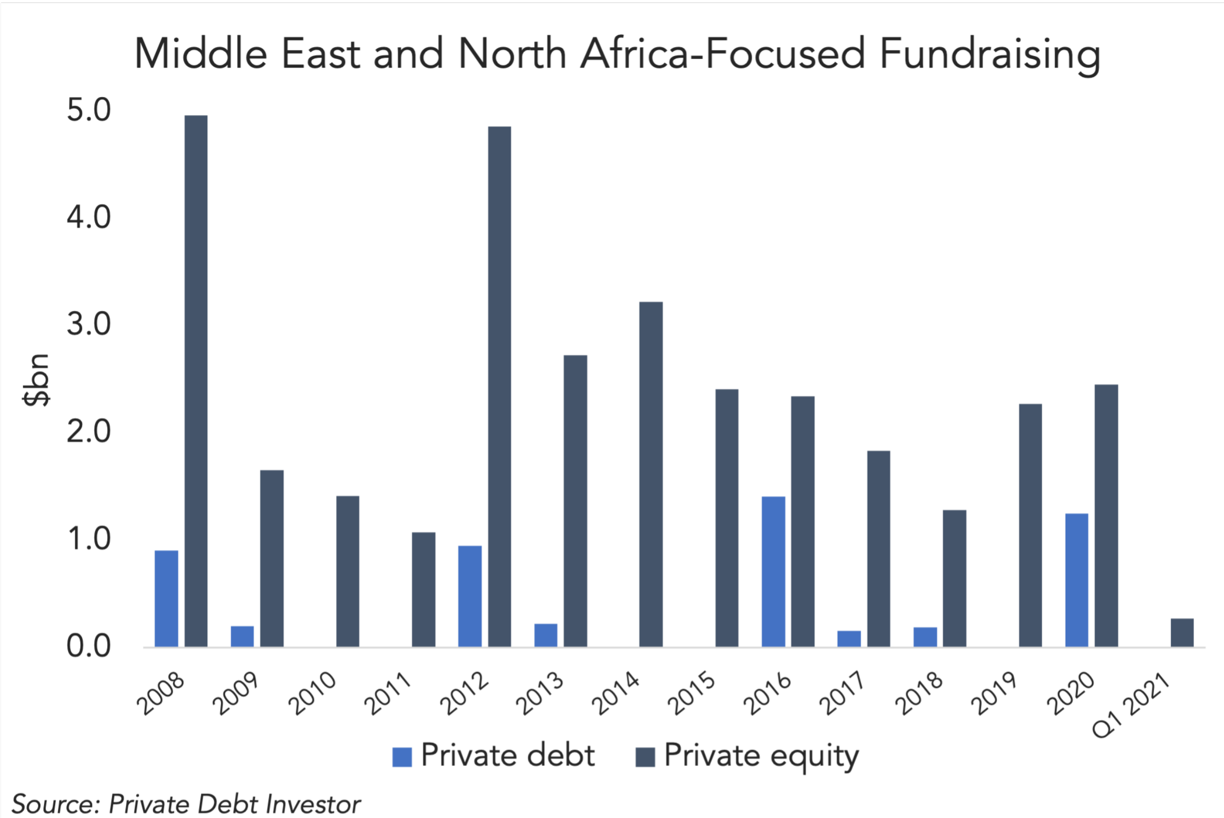

Sovereign wealth interest is becoming apparent as one of the world's nascent debt markets shows signs of growth.

As a relatively new asset class, private debt remains heavily undeveloped outside of North America and Europe. For investors looking to diversify outside of these regions and gain emerging markets exposure, getting an early mover advantage into a rapidly growing debt market could be the key to securing superior returns. The Middle East and North Africa might be just the place.

Fundraising in MENA has been inconsistent for both debt and equity. As can be seen in the chart, some years see no private debt finance raised at all and just two years have seen more than $1 billion of capital raised. Private equity has been more consistent, though amounts are still relatively low compared to the developed markets of North America and Europe. It is notable that despite the covid-19 pandemic, debt fundraising was relatively strong in 2020 with $1.3 billion raised.

Today, MENA is a tiny market for debt but that may be starting to change as local investors look to support internal growth and develop the region's financial ecosystem. A milestone was achieved earlier this year when NBK Capital Partners secured an anchor investment from one of the region's largest LPs, Saudi Arabia's sovereign vehicle, the Public Investment Fund.

The commitment is part of the firm's third direct lending fund, NBK Capital Partners Shari'ah Credit Opportunities Fund, which is its first Shari'ah compliant vehicle, a major requirement to secure backing from PIF. Targeting $300 million, the fund will take the same approach as its predecessors, providing flexible, long-term direct lending to mid-sized firms that cannot access attractive terms from traditional financial sources.

NBK was one of the earliest fund managers offering private debt in the MENA region with its first vehicle launching in 2009. The firm's managing partner and head of private credit, Sikander Ahmed, believes the region could now be on the cusp of experiencing explosive growth in private debt.

"The covid-19 crisis has turbocharged deal pipelines," he says. "We're seeing something similar to what Europe experienced after the Global Financial Crisis where firms have had to turn to private debt to realise growth opportunities as bond markets become harder to access and banks are facing rising NPLs that are affecting their ability to lend to businesses."

(Past performance is no guarantee of future results.)