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Buyout Giant KKR Signals Growing Ambition on Middle East Deals

by Dinesh Nair and Nicolas Parasie
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In October, over 150 professionals from KKR & Co. descended on Abu Dhabi. They huddled in conference rooms at the Mandarin Oriental and dined out in the desert, before traveling to meet with institutional investors across the region that now sits firmly at the heart of global finance.

Weeks after that off-site, KKR picked Abu Dhabi as the location for its third Middle Eastern office. For the $723 billion alternatives giant which pioneered the buyout industry, the moves spotlighted the growing significance of the oil-rich Gulf that boasts a young demographic, growing consumption and robust economic growth.

KKR was set up about five decades ago in the US, later expanding to Europe and Asia. The firm has had an office in Dubai since 2009 and started deploying capital into the region more recently, though executives are looking to dial up their presence.

"Once we decide that we want to go into a region, we operate more like a switch than a dimmer," co-Chief Executive Officer Scott Nuttall told Bloomberg News in Riyadh on the sidelines of the Future Investment Initiative. "We want to invest more capital in and with partners that are here," he said in an exclusive interview alongside two of KKR's most senior regional executives.

The firm recently reported its second-highest fundraising quarter, a period where investment activity also rose sharply. Over the past year, it has deployed about $85 billion globally across asset classes. The Middle East accounts for a small proportion, but Nuttall pledged to scale up, "much like we've done in Europe and Asia."

Buyout firms have been drawn to newly-ascendant Gulf economies that are trying to diversify from oil into areas like finance and artificial intelligence. Massive privatization programs are also seen as a lucrative opportunity.

Scott Nuttall. *Photographer: Akio Kon/Bloomberg*

But it's also a delicate moment for alternative managers in the region. Many of the largest Gulf wealth funds – historically significant backers of the industry – have become pickier about who they work with. Some have sounded alarm over valuation practices and returns, while others say pockets of the market have become crowded.

KKR, for its part, has picked up the pace of dealmaking in the Gulf, which Nuttall said delivered "emerging markets growth for developed market risk." It has invested about $2 billion over the past ten months, buying a slice of Abu Dhabi National Oil Co.'s gas pipeline network and a stake in one of the largest Gulf data center firms.

A Wide Lens

Other titans of global finance, too, have rushed in.

Brookfield Asset Management is now one of the biggest foreign investors in the Gulf, BlackRock Inc. recently signaled ambitions to significantly boost regional investments, while the likes of CVC Capital Partners Plc and General Atlantic have ramped up dealmaking. Executives from many of these firms will head to Abu Dhabi this month for the city's annual finance confab.

Julian Barratt-Due. *Source: KKR & Co.*

KKR executives brushed aside concerns over competition, and said their ability to do a broader variety of deals offers an edge. The firm invests from a global pool of capital, allowing it to target bigger opportunities, according to Julian Barratt-Due, head of Middle East investing.

"Our mandate is very broad and flexible with respect to duration and cost of capital as well as size, governance structures, holding periods," he said in the interview. "That gives us a really wide lens when it comes to deployment and it widens the addressable opportunity set."

"Being able to play across that whole range helps," he said.

KKR opened its first regional office in Dubai 16 years ago, followed by Riyadh in 2014. Co-founders including Henry Kravis have flown into Gulf cities for over three decades to raise capital and build partnerships with sovereign wealth funds. Nuttall himself is a frequent visitor, while former US General David Petraeus – chairman of the Middle East franchise since April – is a fixture at regional finance forums.

In all, it currently has 20 employees in the region, and recently set up an investment team led by Barratt-Due. "This isn't a new endeavor," Nuttall said. "I'd say what is a bit younger is the idea of investing capital in the region, not just taking capital from the region."

That appetite for dealmaking has triggered a regional revival for the industry following the collapse of Abraaj Group, but it's also ratcheting up competition for assets and a slice of the region's billions. Even a flare up in the regional conflict over the summer and fluctuations in the price of crude haven't deterred firms from continuing to set up local outposts and adding investment professionals.

"The Middle East is the world's worst-kept secret," said George Traub, managing partner at Dubai-based boutique Lumina Capital Advisers. "The likes of Brookfield have had an early mover advantage by getting access to a string of deals and others have taken note," he said, adding that firms who may have been underweight are now recalibrating their approach.

General David Petraeus. *Photographer: Christopher Pike/Bloomberg*

Recent transactions have centered on sectors tied to the region's growth. Brookfield invested in a Dubai-based education provider last year, while Permira and Blackstone Inc. poured money into a property classifieds website recently, in a bet that an influx of expatriates would continue to boost those sectors.

"From an investment standpoint, it's a pretty interesting area, and there are a lot of things that rhyme with what we see in Asia," Nuttall said. "And we're the largest manager in Asia."

Opening Up

Buyout shops started to change their approach to the region a few years ago when Gulf states decided to open up some of the marquee infrastructure to international investors. KKR and BlackRock were involved in the first such deal in the Middle East, when they bought into Adnoc's oil pipeline network in 2019.

"Every country has ambitious economic transformation plans and are seeking foreign investments," General Petraeus said in the interview. "The thinking is why hold all these assets on your balance sheet when an investment firm can come and buy some of it."

Such transactions continue to present opportunities for buyout firms. Earlier this year, Saudi Aramco signed an $11 billion lease transaction with a group led by BlackRock's Global Infrastructure Partners for assets linked to the Jafurah gas project.

Aramco is now considering plans to raise billions by selling assets including its oil export and storage terminals business. The action has spread further afield to places like Kuwait, where the state oil firm is considering leasing part of its pipeline network to help fund a $65 billion investment plan.

But the region can still be hard to crack for alternative asset managers. Auction processes can be less structured than in the West, businesses are sometimes more reluctant to cede control, and capital markets are relatively illiquid.

KKR executives are looking to lean on their local presence to counter some of those challenges. A significant portion of its deal pipeline comes from having conversations with local entities, Barratt-Due said.

"You need to be on the ground," he said. "This is impossible to do if you're sitting in London or New York, you just need to meet with people."