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Feature Article



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Hony. Chief Editor

How Private Equity funds can spur new investment in the Global SAM and MOGI Sectors under various uncertainties- Part-1

SAM: Stand Alone Mining

MOGI: Mineral Oil Gas Integrated

(Part 1)

Abstract

While operationally most of the SAM and MOGI sectors, when developed, are lucrative, they also suffer from an array of uncertainties and disruptions. It becomes less acceptable for long term investors when the uncertainties continue to hog the market; as it is happening now. While globally, the governments are keeping away from the risky investments, the private equity investment can be a method for renewed investments in the SAM and MOGI sector, starting from exploration to the value chain investing while the fields are operational. In order to be rational to the investing as well as to protect investor interest, the governments must play an alert but flexible watchdog role.

1.0 Introduction

A public equity fund is a source of financing for a company that comes from selling shares to the public. Public equity is a popular investment option for investors because it's generally considered safer than private equity and is available to anyone with an investment account (Figure 1). Public equity also offers transparency, accountability, and regular financial disclosures for investor security. Though taking a company public does bring in more capital, there are also significant drawbacks. These include the time-consuming process of an IPO, ensuring the company meets strict regulatory rules, giving up complete ownership and total control, and being under the scrutiny of the public and investors.

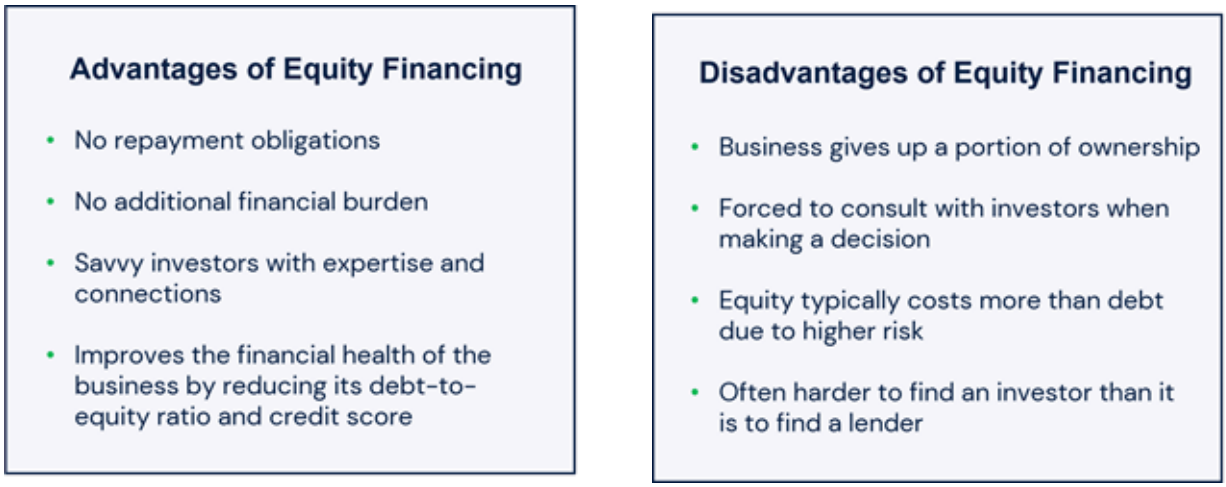


Figure 1. Equity financing.

A private equity fund is a pool of money that investors contribute to a private equity firm to invest in private companies that have the potential for a high return. The firm, also known as the General Partner (GP), manages the fund and uses the money to make investments on behalf of the investors, known as Limited Partners (LPs). Private equity funds are structured as limited partnerships, meaning that LPs have limited liability but don't participate in fund management. However, they do have the right to vote on certain important decisions, such as selling a portfolio company. Private equity funds typically have a fixed investment horizon of four to seven years, after which the firm hopes to exit the investment

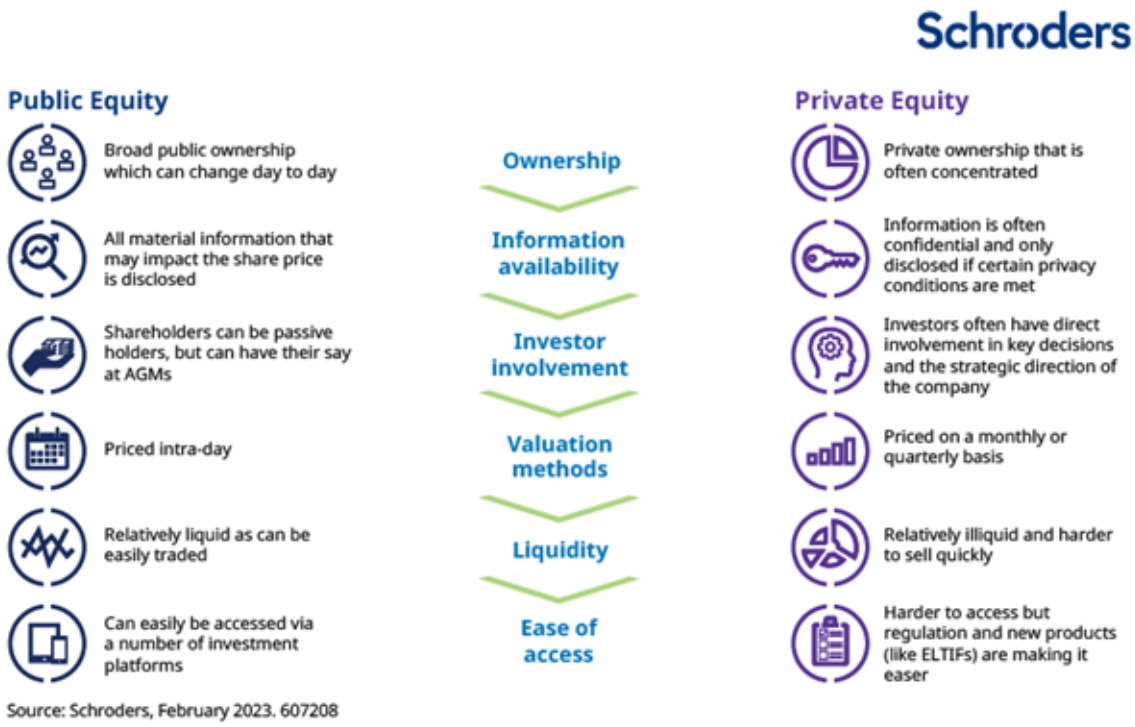


Figure 2. Public equity vs. private equity.

profitably. The firm may try to add value to the companies it buys by optimizing financial structures, incentivizing management, and creating operational improvements. For example, the firm might bring in a new management team, add complementary companies, cut costs, or spin off underperforming parts of the business. Private equity funds can include different types of investments, such as venture capital, growth equity, and large buyouts:

1. Venture capital: Works with early-stage companies that may have good ideas or technology.
2. Growth equity: Provides capital to expand established private businesses.
3. Large buyouts: Buys the entire company.

A Private Equity Fund has a pool of funds gathered from various investors. This collective capital is directed towards acquiring private companies, those not publicly traded on the stock exchange. Once ownership is established, PE investors make interventions to improve the company, sometimes specifically targeted distressed companies, akin to renovating a property to boost its value[1,2]. Private equity consultants are often sought out to help identify potential investment opportunities. As these privately held businesses become more successful and valuable, the private equity fund, along with its contributing investors, can make a return on their investments either by selling the companies or sharing in their increased profits. The pointed difference between public equity and private equity is explained in the Figure 2.

2.0 Hedge Funds and Private Equity (PE) Funds

Somewhat similar to private equity fund is a hedge fund. Hedge funds and Private Equity (PE) funds have several differences, including their investment strategies, risk profiles, and investment time horizons (Figure 3)[3]

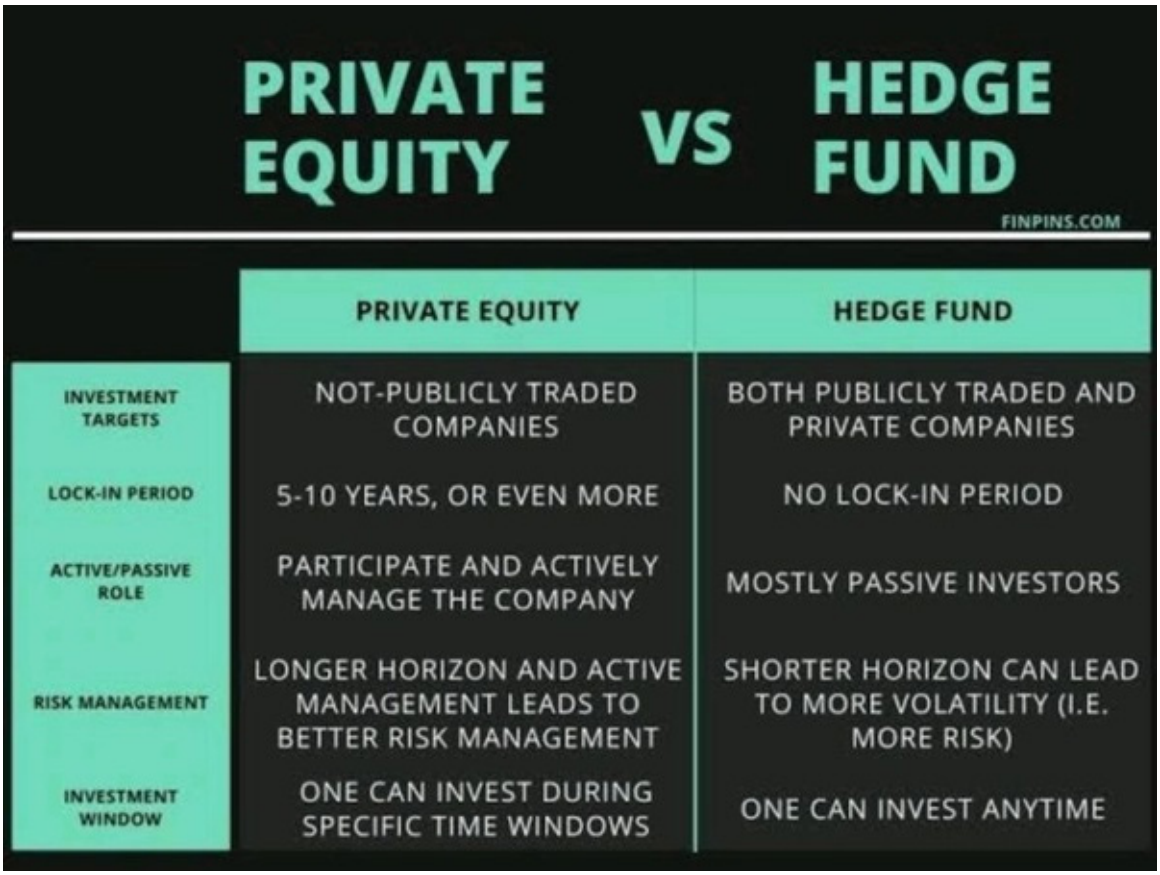


Figure 3. The difference between private equity and hedge fund.

2.1 Investment Strategies

Hedge funds use complex techniques like hedging and leveraging to invest in securities like stocks, options, and futures, while PE firms invest in private companies.

2.2 Risk Profiles

Hedge funds aim to achieve positive returns regardless of market trends, but investors should still expect some risk. PE investments are riskier than other asset classes, but they also have the potential for higher returns.

2.3 Investment Time Horizons

Hedge funds tend to focus on short-term investments, while PE firms focus on longer-term investments.

3.0 The Difference between Public Equity Fund and Private Equity Fund

Private equity firms and public equity firms differ in a number of ways, including the type of ownership they represent, how they're funded, and their risk factors:

3.1 Ownership

Private equity firms own private companies, while public equity firms own publicly traded companies. Private equity investors are often paid through distributions instead of stock accumulation.

3.2 Funding

Private equity firms are funded by investors who commit to a certain size investment through capital calls. Public equity firms are funded all at once when acquired.

3.3 Risk factors

Private equity is considered an alternative asset, along with real estate, natural resources, and other types of assets. It has unique characteristics like higher risk, higher fees, and lower liquidity than public equity, which is considered one of the main types of assets. However, public equity shares can be risky during adverse economic or political situations [3,4].

4.0 Private Equity (PE) Investing in the SAM and MOGI Sector

The SAM and MOGI industry plays a pivotal role in global energy supply and economic development. Within this sector, private equity has emerged as a significant player, influencing investment decisions, asset development, and market dynamics[3]. PEs are active in:

4.1 Investment in Exploration and Production

Private equity firms have become major investors in Exploration and Production (E&P) activities, quite prominently in oil and gas sector. These firms provide capital for drilling operations, technology deployment, and resource development, often partnering with smaller, independent operators. By funding high-risk ventures and leveraging their financial expertise, private equity entities contribute to the discovery and extraction of new reserves, driving industry growth and energy security.

4.1 Asset Acquisitions and Portfolio Optimization

Another key role of private equity is asset acquisitions and portfolio optimization. Private equity-backed companies actively pursue mergers, acquisitions, and divestitures to enhance their asset portfolios and operational efficiencies. Through strategic investments and restructuring initiatives, these firms aim to maximize returns, unlock value, and adapt to changing market conditions.

4.3 Innovation and Technology Adoption

Private equity's involvement in the oil and gas industry extends to innovation and technology adoption. With a focus on efficiency gains, cost reduction, and environmental sustainability, private equity firms encourage the deployment of advanced technologies such as digitalization, automation, and renewable energy integration. By fostering innovation across the value chain, private equity plays a crucial role in driving operational excellence and addressing industry challenges.

4.4 Risk Management and Capital Allocation

Private equity's risk management expertise and capital allocation strategies are instrumental in navigating the cyclical nature of the SAM and MOGI market. These firms employ rigorous due diligence processes, financial modeling, and risk mitigation measures to assess investment opportunities and optimize capital deployment. By diversifying portfolios, managing commodity price volatility, and optimizing resource allocation, private equity contributes to the sector's long-term resilience and profitability.

4.5 Environmental, Social, and Governance (ESG) Considerations

In recent years, private equity's role in the minerals and oil and gas sector has evolved to incorporate environmental, social, and governance (ESG) considerations. Sustainable investing practices, stakeholder engagement, and ESG performance metrics are increasingly integrated into investment decisions. Private equity firms are actively supporting initiatives related to carbon emissions reduction, community engagement, and responsible resource management, aligning with global sustainability goals and stakeholder expectations.

5.0 Top Private Equity Investors in the Minerals Industry

5.1 Minerals Industry

Apollo Global Management Inc, KPS Capital Partners LP, ACE and Company SA, Allegro Funds Pty Ltd, and La Mancha Fund SCSp are among the top 5 private equity investors in the mining industry as of 2021 by deal value. In terms of the geographic split, 5 out of the world's top 10 private equity investors in the mining industry are headquartered in North America, while 2 are based in Europe, 2 are based in Oceania, and the remaining 1 is based in Asia. They employed a total of 39,572 people in 2021.

The Synergy Metals-JSW Cement deal was one of the major deals in the mining sector in 2021. Citigroup Global Markets India Pvt Ltd served as financial advisor to JSW cement, while Khaitan & Co served as legal advisor to JSW. Apollo Global Management Inc and Synergy Metals Investments Holding Ltd, have invested INR15 billion in JSW Cement Limited, an Indian producer, manufacturer, and trader of cement, clinker, ground granulated blast-furnace slag, slag sand, and related products. The deal was completed in Q3 2021.

The KPS Capital-Norsk Hydro deal was another major deal in the mining sector in 2021. KPS Capital Partners LP, a US-based private equity firm, has acquired the Rolling division of Norsk Hydro ASA, a Norway-based aluminum and renewable energy company, for EUR1.4 billion ($1.71 billion). As part of the transaction includes seven plants, one research, and development center, global sales offices, and about 5,000 employees, 650 of which are in Norway with the

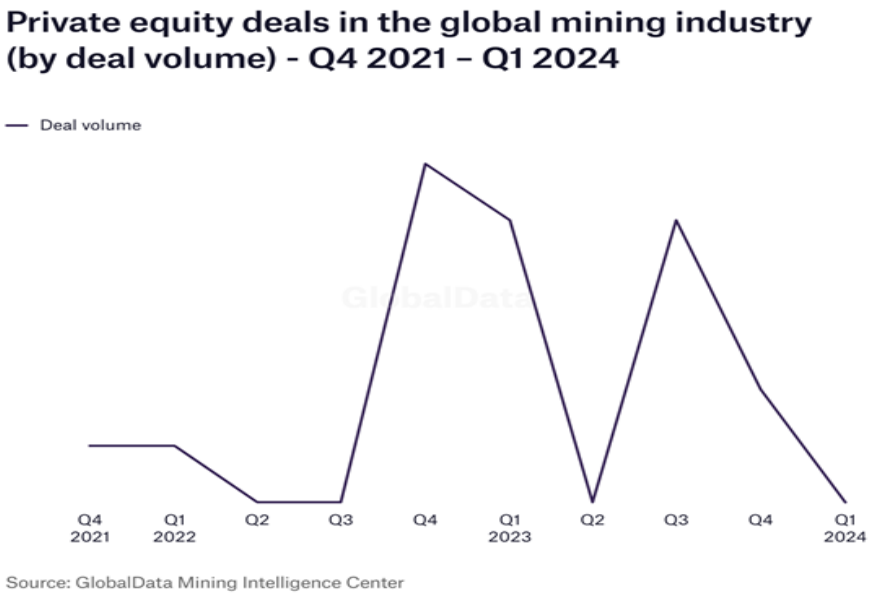


Figure 4. Private equity deals.

Table 1. Top 5 private equity deals by value in the mining industry since 2023

Target	Acquirer	Deal value	Date announced	Deal type
Saudi Iron and Steel	Saudi Public Investment Fund	$3329m	Sep, 2023	Private Equity
H2 Green Steel	Altor Equity Partners; AMF Sweden; Andra AP-fonden; Cristina Stenbeck; FAM; GIC Special Investments; Hitachi Energy; Hy24; IMAS Foundation; Just Climate; Kinnevik; Schaeffler Invest; Temasek Capital Management; Vargas Holding	$1609m	Sep, 2023	Private Equity
JSC ArcelorMittal Temirtau	Qazaqstan Investment Corp	$986m	Dec, 2023	Private Equity
Marmara Pavlidis	Element Capital Management	$542m	Jan, 2023	Private Equity
EcoPro Innovation	Undisclosed	$342m	Jun, 2023	Private Equity

Source: GlobalData Mining Intelligence Center

remainder mainly in Germany. Hydro will receive EUR435 million in cash from the deal, while EUR856 million will go towards a reduction in pension liabilities. The deal was completed in Q2 2021.

In the global mining industry, there were 8 private equity deals announced in Q1 2024, worth a total value of $319.1m, according to GlobalData's Deals Database[4,5]. The $225m investment by Ad Hoc Group, Javelin Global Commodities (SG) and Resource Capital Fund VII in Tacora Resources was the industry's largest disclosed deal. In value terms, private equity deal activity decreased by 68% in Q1 2024 compared with the previous quarter's total of $1bn and fell by 70% as compared to Q1 2023. Related deal volume decreased by 20% in Q1 2024 versus the previous quarter and was 39% lower than in Q1 2023 (Figure 4 and Table 1).

Notably, Foreign Direct Investments (FDI)-related deals accounted for a 50% share of the global mining industry's private equity deal activity in Q1 2024, registering a flat growth over the previous quarter.

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(To be continued in the part-2)