

# CEO

## MIDDLE EAST

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# Public property

Drake & Scull CEO Khaldoun Tabari on listing in the downturn

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# Down but not out

Khaldoun Tabari, the vice chairman and CEO of MEP specialists, Drake & Scull International, tells **Claire Ferris-Lay** why the economic crisis hasn't resulted in a contractor's hell.

**“W**e are living in a contractor's paradise,” Khaldoun Tabari told one journalist on the eve of his company's multimillion-dollar share sale last July. “I don't see an end if the price of oil keeps going the same way,” he added.

Like most people, Tabari, the vice chairman and CEO of Drake & Scull International, didn't see an end to the UAE's insatiable appetite for construction. During the firm's July initial public offering (IPO), the mechanical, electrical and plumbing (MEP) specialist received bids worth \$33.8bn, 101 times the amount it sought. Banks were falling over themselves to dish out cash, the price of oil was rising almost daily and the construction industry was riding high on the crest of a real estate wave.

But when it came to listing those shares — around 55 percent of the firm — on the Dubai Financial Market in March, the situation had changed

dramatically. On its first day of trading, Drake & Scull International shares dropped 26 percent from a sale price of AED1 to 0.84. Two months down the line and those shares are still trading at similar prices.

“The timing when we went to the market was excellent. The market was flush with cash, we had a lot of interest — we were oversubscribed 101 times — and it was great,” Khaldoun tells *CEO Middle East*. “When you list it is an automatic thing... it was not the best timing, but it lists when it lists,” he shrugs.

Today's share price might not be as high as Tabari would like it to be — “I'd like it to be above AED1” — but that doesn't mean he regrets his decision to list the 173-year old company when he did. It will, after all, allow him to snap up a few bargain companies in a spending spree totalling \$500m as he seeks expansion abroad.

“[Our IPO] gave us all of this cash. The cash right now is in treasury and we have AED1.2bn (\$326m), which is a lot





**DRAKE & SCULL IS SETTING ITS SIGHTS ON OTHER GROWTH MARKETS SUCH AS AFRICA.**

of money. [Now] is the right time to acquire,” he says confidently.

Tabari hasn’t wasted any time in taking advantage of the strong position of the dirham, and says he is looking to make announcements on acquisitions of four regional companies — two from Saudi Arabia, one in Kuwait and another in Qatar — by the third quarter of 2009. “Three will be MEP contractors and one will be civil, which will compliment our Gulf Technical Construction Company brand. These companies will of course add revenues,” he says. “Right now we are doing legal and financial valuations, [which] will take some time.”

**SOLID FOUNDATIONS**

Tabari has been leading Drake & Scull International since 1998, when he first bought a stake in the firm. However, his association with the originally British company dates back to 1982, when he started work installing a network of eighteen radar stations and underground command centres in Saudi Arabia. These were later used in the 1990 Gulf War. The firm was wholly owned by a consortium of investors, including Tabari, before its 55 percent IPO last year.

Today Drake & Scull has around 12,000 employees and, in addition to providing MEP services, which perhaps it is best known for, it also generates a large proportion of its revenues from water treatment works and building district cooling plants.

Despite the global downturn and the crash in oil prices, which fuelled the five-year real estate boom in the region, Tabari remains optimistic for Drake & Scull’s growth this year. He predicts profits and revenues will grow “organically” by around 25 percent this year. Much of this growth, he says, will come from markets outside of the UAE, where investment in infrastructure is still desperately required.

In October 2007 Drake & Scull won its first contract in Sudan; a \$21m deal to provide MEP services for a new building development in the capital city of Khartoum. This was followed by a March announcement that the company would set up a Libyan unit, its second venture in Africa. Libya, which has a population of five million, has one of the biggest oil reserves in Africa. Most importantly for Tabari, the country is also in the midst of undertaking a \$126.5bn, five-year infrastructure

redevelopment plan to modernise water and sanitation facilities, and build airports, houses and schools.

“I think North Africa is a tremendous area of growth. When we talk about roads, bridges and cooling plants, Libya doesn’t even have five percent of what we have [in the UAE],” he says.

**PROJECT FOCUS**

Until now, the majority of Drake & Scull’s orders have come from its home market of Dubai. Previous projects include the district cooling systems for Jumeirah Beach Residence and Dubai Festival City, and the building systems in Dubai Police headquarters and Indigo Tower. While currently the majority of the \$1.6bn order book for 2009 is still dependent on this market, this is expected to change as Tabari ramps up his expansion plans abroad. In addition to North African countries, Tabari also sees potential for Drake & Scull to grow in other Gulf states and the UAE’s capital, Abu Dhabi.

In March, Drake & Scull won a \$162m project to build and design the district cooling for the Durrat Al Bahrain project. Construction on the project is expected to begin in September and will

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**DESPITE SLUGGISH TRADING OF ITS SHARES, DRAKE & SCULL IS STILL BULLISH ON ITS MEP PROJECTS BOTH IN THE GULF AND IN AFRICAN COUNTRIES SUCH AS SUDAN.**

be completed in five years. Work is also expected to start in December on a \$38m project to provide a chilled water plant for the Sahara Centre Shopping Mall expansion in Sharjah.

While Tabari has been forced to accelerate his expansion plans as a result of the economic crisis, he denies that the downturn is the only reason for the company’s ambitious plans. “Our expansion [is] not coming because Dubai has had a downturn,” he says. “We had planned it, and that’s why we went to the market in July. It would have been prudent for any company of our size not to have one location and one business. That is why we have three business streams and we are looking to expand regionally or horizontally.”

### **GROWTH AMID THE SLOWDOWN**

Tabari is confident of Drake & Scull’s ability to grow during the construction slowdown. While he cites some of this optimism on the growth of infrastructure in countries such as Saudi Arabia and North Africa, he also notes the capability of his team at Drake & Scull as the main reason.

“There is a market trend and there is a Drake & Scull trend, and we believe...

it’s a company that will exceed market expectations,” he explains. “We are very well-managed, we have many good people and the people we have, have been with us for ten to twenty years. We are a service company and we depend on talent — we are not a manufacturer with an assembly line, it all depends on the people.”

It is Drake & Scull’s leadership, both past and present, which Tabari believes will set the firm apart from its competitors during the financial crisis. “We were advocating expansion three years ago. We went to the market to bring in extra cash to buy companies so we weren’t waiting until there was a downturn.”

And yet, despite his optimism, Tabari remains a realist. He is, of course, concerned about the firm’s current share price and admits investor confidence in the construction industry is at an all-time low. “I would be [concerned about investing in construction]. I am scared, I am scared of Dubai [and] I am scared of the construction industry. It’s all about supply and demand; if you are a builder right now... you don’t build. However, our niche is completely different; we have the infrastructure — water and

power — which is related to population [growth]. As far as building services are concerned it follows the construction industry. I do not think there is too much growth in Dubai. As far as the civil contracting [business goes], I can see growth in Abu Dhabi, Saudi Arabia, Qatar — outside of the UAE, but not in Dubai.”

Drake & Scull International has been a Dubai-based company since it moved its headquarters to the city in 1966. And while this market has, up until now, provided the majority of the firm’s growth during the boom years, Tabari notes that for Drake & Scull, Dubai will never be able to provide the same opportunities again. Instead its role will evolve to provide the backdrop for his future expansion plans.

“What we have seen in Dubai will not be repeated again,” he says. “We feel that Dubai is going to take more than two to three years to get back into at least a healthy situation — simply because of so much access to supply. Dubai has infrastructure for the whole company — [it has] the communications and the transport is great, so our people will be using Dubai as a base.”

Not a contractor’s hell just yet. **CEO**