

# Drake & Scull International PJSC (DSI.DU)

Rating	<b>OUTPERFORM [V]</b>
Price (30 Oct 09, Dhs)	1.03
Target Price (Dhs)	1.19 <sup>1</sup>
Market cap. (Dhs m)	2,243.11
Enterprise value (Dhs m)	1,141.4

<sup>\*</sup>Stock ratings are relative to the relevant country benchmark.  
<sup>1</sup>Target price is for 12 months.  
 [V] = Stock considered volatile (see Disclosure Appendix).

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**RESULTS CHECKSHEET**

## Initial comment on Q3 results; ahead of expectations, we remain buyers

- **Action:** Drake and Scull reported positive preliminary Q3 results today. Net profit (after minorities) of AED68.9 m (down 20% QoQ) beat both our and consensus estimate by about 12%. We re-iterate our Outperform rating for the stock with a TP of AED 1.19 per share.
- **Investment view:** As we mentioned in our "MENA Construction Q3 Preview" published on 14 October 2009, we expected modest Q3 results (relative to Q2) for MENA construction companies in general given the reduced working hours during the month of Ramadan which in turn reduces the amount of construction work being billed by contractors. Although DSI's Q3 revenue of AED 400 m missed our estimate of AED 444 m by 10% due to less work completed than expected, we believe the results are strong due to; 1) Profitability was higher than expected with net profit margin reaching 17.2% in Q3, up from 16.9% in Q2 and our estimate of 13.8% for this quarter. We believe the slight improvement in profitability QoQ is a result of less contribution from the company's civil contracting business in Q3, which has lower margins than MEP and IWP contracting businesses (Civil contracting contributed 23% of revenue in Q3, compared to 25% in Q2); 2) DSI achieved strong backlog growth with backlog currently standing at AED 3.1, compared to AED 2.7 bn in June 2009 as the company continues to secure new projects (the company secured two new contracts in Abu Dhabi and Thailand amounting to AED 550 m during Q4 so far, which is on track to reach our estimate of AED 700 m worth of new awards in Q4 of this year); 3) Balance sheet numbers are not out yet, but the company stated that receivables DOH have gone down from 190 days in Q2 to 160 days in Q3, which we believe provides some comfort on the working capital side.
- **Catalyst:** We expect relatively strong Q4 results and further project awards this quarter.
- **Valuation:** DSI trades at an EV/EBITDA of 4.5x for 2010E (ex. potential acquisitions), a 32% discount to our global peer group average of 6.6x.

	Result	CS est	% chg res/est	Range	Last Yr	% chg yoy	Comment
Revenue (AED m)	400	444					
Net profit (AED m)	68.9	61.4					
Net profit margin (%)	17.2%	13.8%					

Source: Company data, Credit Suisse estimates.

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**Companies Mentioned** (Price as of 30 Oct 09)

Drake & Scull International PJSC (DSI.DU, Dhs1.03, OUTPERFORM [V], TP Dhs1.19)

## Disclosure Appendix

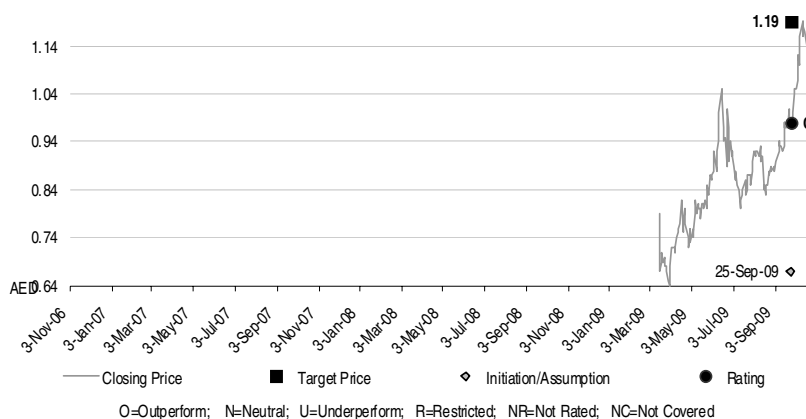
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See the Companies Mentioned section for full company names.

### 3-Year Price, Target Price and Rating Change History Chart for DSI.DU

DSI.DU	Closing Price (AED)	Target Price (AED)	Rating	Initiation/Assumption
25-Sep-09	.98	1.19	O	X



The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

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**Underweight:** Industry expected to underperform the relevant broad market benchmark over the next 12 months.

\*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

\*\*The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.

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**Price Target:** (12 months) for (DSI.DU)

**Method:** Our TP of AED 1.19 per share is based on a Discounted Cash Flow approach and is based on a 10-year forecast period and a terminal value calculated as perpetuity of FCF with a 2% growth rate. We have used a WACC of 10.2%, which is derived from a cost of equity of 10.5% and a cost of debt of 7%.

**Risks:** Geopolitical risk, building materials cost inflation risk, and a slowdown in the growth of the construction sector in the MENA region which may lead to project delays and cancellation.

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