# Drake & Scull International PJSC (DSI.DU)

| | |
|---|---|
| Rating | **OUTPERFORM [V]** |
| Price (30 Oct 09, Dhs) | 1.03 |
| Target Price (Dhs) | 1.19[1] |
| Market cap. (Dhs m) | 2,243.11 |
| Enterprise value (Dhs m) | 1,141.4 |

**Stock ratings are relative to the relevant country benchmark.*
*[1]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.*

**Companies Mentioned** *(Price as of 30 Oct 09)*
Drake & Scull International PJSC (DSI.DU, Dhs1.03, OUTPERFORM [V], TP Dhs1.19)

# Disclosure Appendix

## Important Global Disclosures

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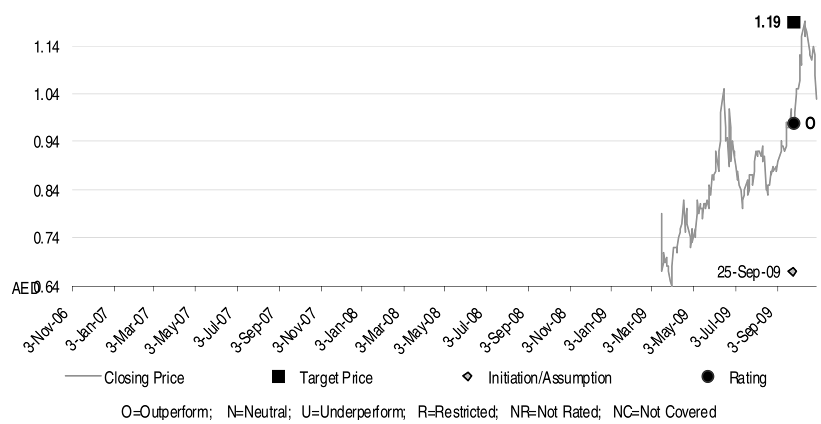
*See the Companies Mentioned section for full company names.*

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

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

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**Outperform (O):** The stock's total return is expected to outperform the relevant benchmark* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

**Neutral (N):** The stock's total return is expected to be in line with the relevant benchmark* (range of ±10-15%) over the next 12 months.

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**Relevant benchmark by region: As of 29th May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe**, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe**. For Australian and New Zealand stocks a 22% and a 12% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively, subject to analysts' perceived risk. The 22% and 12% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively, subject to analysts' perceived risk.*

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

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**Market Weight:** Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

**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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| | Global Ratings Distribution | |
|---|---|---|
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| **Neutral/Hold*** | 42% | (59% banking clients) |
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| **Restricted** | 2% | |

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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 infilation 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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