



Drake & Scull's simple strategy

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Interview: Wael Allan, CEO, Drake & Scull International

In a region where the construction sector is such an important driver of the economy and there are only a handful of listed contractors, those companies that have gone public either claim the glory or carry the burden of the market as it moves from boom to bust.

In 2017, the regional construction market is depressed, and with that comes lots of speculation about the future of the region's listed construction companies. This is a phenomenon that Wael Allan, CEO of Dubai-listed Drake & Scull International, knows all too well. "There are a lot of rumours in the marketplace, sometimes negative views about Drake & Scull," he says. "Quite frankly a lot of it is unsubstantiated. We are the only MEP [mechanical, electrical and plumbing] construction company that is publicly listed, and with that comes a level of transparency."

Allan took over as CEO at Drake & Scull in October last year, after a six-month stint as chief operating officer (COO). “I came in as COO to spend six months understanding the business, to see what is going on, improve the operational efficiency, and then do a controlled handover from the previous CEO and major shareholder Khaldoun Tabari,” he says.

Despite the market difficulties that Drake & Scull faced, Allan – who was previously the Middle East CEO for Netherlands-based consultancy Arcadis – saw a company that offered great potential. “Coming here, the first impression you get from Drake & Scull is it is a company that has heritage, history, really good loyal people that are committed to the company, and great entrepreneurship, and that is good for the growth of the businesses,” he says. “The basis of the company is strong, its UK heritage is quite evident in the way it runs its projects with its capabilities and its competencies, but the combination of low oil prices, the difficult construction market and rapid growth outside of the UAE in non-core disciplines such as general contracting in Saudi Arabia have caused some issues for the company.”

Addressing issues

Those issues are now being addressed. After becoming CEO, Allan moved to restructure the business and reposition it for future growth. “We then embarked on employing [US-headquartered] PwC as a financial adviser to come and help us with how to manage our working capital, increase our liquidity and also develop a business plan suitable to share with our banks so that they understand where we are and where we are going to go from here,” he says.

The restructuring process has resulted in a new strategy for the company that focuses on Drake & Scull’s core MEP business. “Our strategy is very simple,” says Allan. “Do what you are good at and in the areas that you understand and know very well. What we are good at is MEP, so we want to be the number one MEP provider in our home markets, and I define home markets as areas we understand fully and have a relationship with the supply chain, and understand the clients and what drives them. The priority will be MEP in the UAE, Qatar and Saudi Arabia.”

The strategy should produce better returns for Drake & Scull’s shareholders. “MEP is a more profitable business than general contracting,” says Allan. “It is more specialised and therefore should produce better returns on our investors’ capital.”

There are also better-quality opportunities for MEP work as the regional market is generally underserved by contractors. “In MEP, there are a lot of good opportunities, and the size is where we would like to play, where there is less competition,” says Allan. “Generally the average size we aim for is AED200m-AED500m [\$55m-\$136m) and there are plenty of those.”

Exit plans

Focusing on MEP work means Drake & Scull will exit some market segments and geographies. “In Saudi Arabia, we will not be taking on any more general contracting or civils work, and we will not do that in any other area,” says Allan. “We have a [general contracting] company called GTCC [Gulf Technical Construction Company], which is based in the UAE, and we will limit its work in general contracting predominately to Dubai.”

In the past Drake & Scull had targeted general contracting as a way of growing its revenues after it listed in late 2008. “The temptation there was to become master of your own destiny and not always be in a subcontracting position, but also increasing the growth of the company with general contracting would be a lot easier,” says Allan. “Companies go through different phases. At that time it was emphasis on topline growth. Now we are absolutely focused on bottom-line sustainability and viability. We are all about profit.”

One market segment related to MEP that Drake & Scull will remain active in is water, with its German subsidiary Passavant-Roediger, which it acquired in 2009. “We have Passavant in Germany and it is very much akin to the MEP side of the business,” says Allan. “It is about engineering, procurement and some construction management activities, but specifically targeted at the water [sector]. We are continuing in that business because it really is similar to our MEP offering, but it is more diversified in its geographical offering based on projects and where wastewater treatment and energy is required.”

Crucial financing

Financing is a pivotal part of the new strategy. “Contracting always requires financing,” says Allan. “The banks are absolutely key to the viability of the construction industry. I have to say our banks have been great in supporting Drake & Scull and continue to do so despite all the difficulties and lack of liquidity in the market.”

To help resolve the liquidity problem, Drake & Scull secured a new strategic investor from Abu Dhabi earlier this year that plans to inject AED500m into the company. “Tabarak Investment is a strategic investor that is not just coming in with money, but also an understanding of business in the UAE and the ability to help us win a greater share of the market within the UAE,” says Allan. “They have great expertise in restructuring and helping companies that are in distress, so I think that expertise and knowledge will also speed up our recovery.”

The plan is for Drake & Scull to reduce its capital by 50 per cent, while at the same time Tabarak Investment will raise the company’s capital with the AED500m injection.

Allan hopes the deal will go through. “It will enhance the company’s liquidity,” he says. “The injection of the AED500m will go towards operations, making sure we run well. The capital reduction helps with some of the write-offs we have had in the past in terms of incurred losses previously. Both elements are needed to ensure viability and sustainability of the company.”

Before the transaction can be completed, it has to be approved by the regulator and Drake & Scull’s shareholders. “At this stage we are talking to ESCA [Emirates Securities & Commodities Authority],” says Allan. “We have provided all the documentation required and we are waiting for formal approval to proceed and go ahead. We are anticipating to call for our AGM [Annual General Meeting] in April, and the investor coming in is subject to ESCA approval as well as the shareholder approval that will be tabulated at the AGM.”

The company is also planning to raise more funds from shareholders, which, together with assets that have been sold, give it close to AED1bn of funds. "We are also going to raise AED100m possibility on the market," says Allan. "I think we will be offering to shareholders, who obviously buy shares on the same terms as we are offering Tabarak. We then have AED600m and add to that the sale of [our holding in the] Palm One [project on the Palm Jumeirah] for AED300m, and you are looking at AED900m to AED1bn of cash injected into the company."

The injection of cash will allow Drake & Scull's move towards the future. "It increases our liquidity, helps us operationally," says Allan. "Obviously we need to spend this money in the right way, and the right way is to spend it where we can generate more money and that is on project and clients."

Operational strategy

Funding will allow Drake & Scull to support its operational strategy by allowing it to invest in its core capabilities. "We are strengthening our engineering offering and capability," says Allan. "I strongly believe that by offering our clients innovation and technology we enhance the quality of our MEP offering tremendously. We are shifting more towards BIM [building information modelling], we are looking at prefabrication and modular construction. There are three elements to a project: material, labour and what we call preliminaries, which is the project management team. We want to reduce the reliance on labour and the only way you can do that is with prefabrication, modular construction and fabricating offsite."

Reducing the amount of labour Drake & Scull uses will make the company more resilient to the cyclical nature of the construction market and ensure its performance in the future is more robust. "One of the issues is that when markets go through cycles of growth and maybe decline, having a huge number of labourers does not help," says Allan. "In our operational strategy we are moving from total self-performance to a combination of self-performance and construction management. For us a 50:50 [split] is a good objective to achieve. It is about agility in the market, being adaptable and being able to respond. It is better quality too. We want to self-perform elements of the project where we excel and we are the best."