



## Earnings Preview

**Drake & Scull  
International**  
RATING: Outperform  
Target Price: AED 1.08

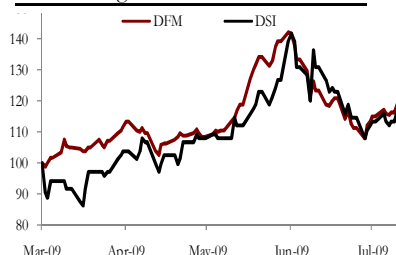
## Expect Margin Softening Near Term; Seeking Strong Catalysts Long Term

- We expect 2Q 09 revenues of AED 436.13mn, as the top line growth weakens by 10.6% q-o-q. We believe that the deteriorating market conditions are likely to slow down the company's top line growth especially for the UAE MEP segment over the next few quarters. It is unlikely that DSI can replicate its 2007/08 organic revenue growth pattern in 2009/10.
- We feel that margin softening is likely to be seen in the 2Q 09. Despite the benefits that could accrue from lower commodity prices, we expect the tight liquidity, delayed projects and contract renegotiations to lower margins for the rest of the year. Hence, 2Q 09 gross margins are likely to be ~ 17%, declining by approximately 90bp q-o-q.
- Although the rise in operational expenses (due to new hiring activity during the quarter) is likely to challenge bottom line, we reckon that the interest income from unused IPO funds is likely to cushion the net margin for this quarter. We estimate a net margin of 15.8% for 2Q 09, down 60bp q-o-q.
- Since end of May-09, DSI has secured 3 new orders- AED 226mn for its MEP Dubai division, SAR 540mn for its Saudi MEP business and AED 500mn for its civil division, through its subsidiary GTCC. Therefore, the final outstanding backlog stands at AED 2.7bn with UAE accounting for more than 50% of it.
- DSI has been aggressively bidding for orders across the region and we expect the company to announce a total of AED 700-800mn worth of new projects in 3Q 09. We anticipate that the new orders will enhance the outstanding backlog and ensure recurring revenue stream for the long term (beyond 2009). In addition we are hopeful that the profile of the orders is likely to boost business prospects of the IWP and civil lines of business.
- DSI is actively chasing attractive valuations for its potential acquisition targets in Saudi, Kuwait and Qatar. We remain positive about business opportunities primarily in Saudi as the government's planned expenditure on infrastructure remains healthy.
- The company commenced its share buy-back plan in the last month and has bought back a total of 22.4mn shares (10.28% of the approved buyback of 217.77mn shares). At an average price of AED 0.88 per share, DSI could have possibly spent AED 19.7mn on the buyback so far. The share buy-back offers to return some value to the shareholders and as this has already been priced into the stock, we do not believe that re-commencing the buyback post the declaration of 2Q 09 results could provide for dramatic stock momentum.
- In the near term, DSI is less prone to be challenged by working capital concerns and in the long term we foresee the company to have successfully established a regional footprint with a healthy growth profile. Therefore, we believe that there is long term shareholder value in DSI & we comfortably retain our outperform rating on the stock.

Mala Pancholia  
T+971 4 360 11 54  
mala.pancholia@almalcapital.com

Downtown Burj Dubai  
Emaar Square  
Building 4, Office 302  
Sheikh Zayed Road  
P. O. Box 119930, Dubai, UAE  
T +971 4 360 1111  
F +971 4 360 1122  
www.almalcapital.com

Equity Data		Financials		1Q 09	2Q 09E
Price, AED	0.87	Revenue	488.09	436.13	
Target Price, AED	1.08	Gross Profit	87.38	74.14	
Upside %	24.5%	Gross Margin %	17.9%	17.0%	
Hi-Lo, AED	1.08 - 0.64	EBITDA	67.25	45.79	
Performance, YTD	20.3%	EBITDA Margin %	13.8%	10.5%	
Market Cap (AED, mn)	1,916.44	EBIT	62.02	39.03	
EV (AED, mn)	912.44	EBIT Margin %	12.7%	9.0%	
Bloomberg	DSI UH	Net Profit After Min Int	77.17	66.48	
		Net Margin %	15.8%	15.2%	
		Shares Outstanding	2,177.78	2,177.78	
		EPS	0.04	0.03	
		Total Assets	3,411.59	3,637.23	
		Total Liabilities	1,083.57	997.52	
		Shareholder Equity	2,328.12	2,639.71	



**Al Mal Securities Group****Managing Director**

Robert McKinnon +971 4 360 11 17

**Institutional Sales & Trading**

Ashraf Abu Shakra +971 4 369 66 01

Khamis Shennawi +971 4 360 11 10

Kamal Samarraï +971 4 360 11 05

Jalal Faruki +971 4 360 11 03

Carlo Dalafu +971 4 360 11 04

**All Desks Numbers** +971 4 360 11 00**Al Mal Capital Research****Equity Research Analysts**

Irfan Ellam +971 4 360 11 53

Bobby Sarkar +971 4 360 11 68

Deepak Tolani, CFA +971 4 360 11 52

Mala Pancholia +971 4 360 11 54

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