



COVER STORY

## As good as it gets



### A LESSON IN FOCUSED GROWTH

**Solid foundations and soaring ambition have led to the reinvention of Renaissance Services as a successful player with a global foothold**

MOHANA PRABHAKAR

Tony Montana: Me, I want what's coming to me..

Manny: Oh, well... what's coming to you?...

Tony Montana: The world, chico, and everything in it...

– SCARFACE, 1983

It was Al Pacino there, who wanted the world and everything in it. The men on the penthouse floor at the Muscat-based headquarters of Renaissance Services have not voiced any such dramatic aspirations for their conglomerate, but the fact is that this global player has big dreams and the capability of realising them.

Today Samir Fancy, chairman, Renaissance along with CEO, Stephen Thomas and the rest of the team that worked towards the goal of becoming a focused oil and gas services player with a sustainable income base, have good reason to stand tall. Renaissance has evolved into an internationally renowned provider of turnkey contract services primarily for oil and gas, and owns one of the top ten offshore support vessel fleets in the world.

With offices in 18 countries and carrying out operations in 39, Fancy and Thomas' description of their company is indisputable: a true Omani multinational.

The company recently reported its fifth successive year of steady growth and shareholders, who have persisted with the company from end 2001 will be glad to know that they have actually earned a compounded return of 100 per cent over the last five years. For the full year to December 2006, total revenue is up by 34 per cent to RO142.9mn, and this growth has been primarily organic, as opposed to the heavy inorganic growth of 2005 following acquisitions. Operating profit went up by 33 per cent over the previous year corresponding period to RO21.81mn. Net profit is marginally higher over 2005, mainly on account of higher finance costs and tax charges arising from various growth initiatives in new markets and acquisition of new assets. Also the non-operating and exceptional incomes have been lower in 2006 compared to previous year.

Over the next three years, Renaissance is planning to invest US\$508mn, of which US\$170mn is targeted for the current year. Says Fancy, "These investments will be made in assets and businesses where we have proven competence, and in markets where we have established leadership and unique value propositions." An ambitious programme no doubt, (in 2006, new asset investment totalled US\$85.4mn) but Fancy is confident that this will be the platform for a meteoric rise of the company, with these investments bringing in significant earnings and free cash flow within one to two years.

Changing seasons If there is one concern that has been voiced regularly by analysts about Renaissance's performance in the past, it has been about the dependence on income from certain overseas contracts that can only be described as short term. Fancy does not have to work too hard anymore to deliver the one message that is dear to him: what his team at Renaissance has been building is not a company that seizes an opportunity for quick bucks, but one that invests in opportunities that fall in line with a carefully thought out goal-oriented strategy for sustainable growth. "We structured ourselves to grow. We believed we had the systems and processes to make it happen, and the management and vision to get to another level. We went out and did it on the back of what earned us the reputation of being a one-contract wonder. We then went to another level and said we had to sustain it. Creating that sustainability was another restructuring period."

Till 2004, the Contract Services business group was the main contributor both in terms of turnover and operating profit (OP). Between 2000-04, on a cumulative basis this segment generated 57 per cent of the total revenue and a huge 94 per cent of OP, and the most significant chunk of this came from the overseas contract mentioned above. "But 2005-06 was all about building the sustainable part of the future. And from being a diversified services company, the future will see 85 per cent of Renaissance's topline come from servicing the oil and gas sector."

The full year to December 2006 shows a clear shift in the revenue pattern with most of the growth coming from the Marine and Engineering Division that accounted for 61 per cent of total revenue in 2006, up from 48.45 per cent in the previous corresponding year. This lends further weight to the company's stated intentions of moving towards a more

sustainable income model. Contract Services continues to be an important contributor to the top-line (26.2 per cent) with almost half attributable to the aforementioned overseas contract alone that began in 2003. PACs (permanent accommodation) are a significant contributor in the Contract Services group. Renaissance owns and manages three PACs (1024 rooms) for PDO in Nimr, Fahud and Qarn al Alam that are currently close to full occupancy. At present there are three PACs under consideration by PDO and going by its track record, Renaissance should emerge a strong contender.

### **The genesis**

The story began in 1984, when Fancy joined his brother H H Sayyid Shabib Bin Taimur in establishing the Tawoos Group, and later succeeded him as chairman. Always focused on the services sector, with an emphasis on industrial services, technology, media and training, it was in 1996, that they decided to take some of their family owned services companies to the market through a holding company structure.

Renaissance Holdings was the first Omani family owned company to be listed on the Muscat Securities Market (MSM). Fancy recalls the exhilaration at the time at being the first, not just in Oman, but also in the Gulf, generic services company, as opposed to a bank or industrial holdings, that went to the market successfully. It also coincided with the upswing in the Oman market. But in a couple of years realities changed as oil prices plummeted, credit lines hardened, the stock market collapsed and Renaissance found itself with big projects in hand but also a mountain of debt.

Around this time Renaissance had involved themselves in what Fancy felt was the future. "We decided to participate in, and won the contract to build all the permanent accommodation (PAC) for contractors at PDO. This, at the time, was a totally novel project." Given the difficult economy and the new debt burdens placed by the capital intensive projects, the intervening period, between construction and client acceptance, saw the company squeezed relentlessly by banks. "I think probably, at that time, the most supportive banks were BankMuscat in particular, and NBO. They actually made an effort to understand our business and that was extremely important to our future. When banks react to macro conditions and lose sight of specific customer circumstances, your ability to grow, and many a time simply to survive, diminishes rapidly."

In 2002, Renaissance Holdings acquired 100 per cent of its partly owned subsidiary Renaissance Hospitality and became Renaissance Services. And it was time to grow again. "Since unveiling our restructuring strategy at the end of 2001, the company's market capitalisation has grown more than 50 fold by the end of 2006."

### **The catapult**

The most significant merger so far in Renaissance's history came in March 2005 with Oman based Topaz Engineering and Marine (TEAM), a company whose main activities included ship owning and chartering, fabrication and maintenance for the oil and gas industry, and ship repair. This represented a very important step moving closer towards the company's aim to become a player of note in the oil and gas services segment. What made the deal even sweeter was the subsequent acquisition by Topaz of BUE

(British Underwater Engineering) Marine, a UK based vessel operator that controlled over 50 per cent of the offshore vessel market in the Caspian Sea.

It was this deal that launched Renaissance into the big league. "I saw a lot of potential in BUE. I saw the paradigm shift in the price of oil and the Caspian as being key to the future for hydrocarbons." In absolute terms, these two acquisitions contributed to 48 per cent of revenues in 2005 and almost 35 per cent in terms of operating profit.

Even as analysts talk about effects of cyclicity on revenues, the inescapable fact is that the Caspian is still achieving less than potential output, with total regional production of about 2.1mn bpd expected to triple by 2010.

A landlocked sea, with entry from international waters through the Volga, oil exploration here is classified as shallow water exploration. "Our offshore vessel support fleet is amongst the top ten worldwide, but more importantly we dominate our competitors in the Caspian waters." Of the company's marine fleet of over 80 ships, about 60 are currently deployed in the Caspian region.

"The infrastructure that we have built up there is of the highest quality and that is what the oil majors seek. This has given us an edge, despite being a fraction of the size of the biggest player, Tidewater."

Then, points out Fancy, typically oil and gas offshore support contracts are normally between '1 + 1' year. "Here again we are typically picking up ten year contracts because of the particular nature of the Caspian waters and the special build requirements."

Of the proposed capex over the next three years, one of the three core initiatives as stated by Fancy at the time of declaring the annual results was 'increasing the size and reducing the age profile of our offshore support vessel fleet – prudently balancing investment between the fleet engaged in high demand spot markets and the fleet engaged in long-term stable contracts with major oil and gas producers.'

Last November, two new vessels were added to BUE's offshore fleet at an investment of US\$60mn. Previously it had also added a state of the art Emergency Response and Rescue vessel in Singapore, headed to Baku to carry out a ten year contract for BP Azerbaijan. Since its acquisition of BUE, so far Renaissance has already invested more than US\$100mn in new vessels.

### **On one path**

Many thought that it wasn't exactly sensible for Renaissance to venture into the North Sea, being a geographically difficult proposition. The fact is that the acquisition of Norsk Offshore Catering (NOC) from Maersk was of great synergistic value by expanding the scope of the Contract Services group into offshore catering besides further underlining the company's core focus on oil and gas support services. "Maersk is the kind of company that is high on quality and safety, on processes, and though ours may not have been the highest bid, we were chosen on quality related issues. It was not so much

about them making a sale for profit as it was about them making a sale where their people and their rigs would be primarily cared for. And this gives us the strength, the pre-qualification to work anywhere in the world and bid offshore." Fancy further adds that the cross fertilisation between this operation and the shipping fleet in the Caspian that services the offshore requirements of those countries, has major future potential.

In January this year, NOC won US\$18mn worth of contracts from Maersk for provision of catering services in the Norwegian sector of the North Sea oil and gas industry. Fancy suspects that there will be close to 2,000 offshore platforms out in the Caspian when they are done building their offshore infrastructure. "And who would be better positioned than us to take care of them?"

The new Angolan joint venture agreement signed in March this year, between the Contract Services group and ProGroup Angola to provide catering, facility management and related contract services in Angola, is also an integral part of the NOC acquisition strategy. Angola is one of the world's fastest growing oil producers, with oil output quadrupling over recent years to an average of 1.4mn bpd a day in 2006. National oil company, Sonangol, has announced investment plans for US\$50bn over the next six years to increase production to 2mn bpd.

#### The grey area

With all this focus on becoming a top player in the oil and gas services support industry, where does it leave Renaissance's other business groups? The three groups, Technology, Media and Communications and Education and Training contribute around 15 per cent of the top line of which Imtac is the heavyweight. Says Fancy, "All these companies are very profitable with respect to their return on capital." This aside, Renaissance holds other investments which are not contributing materially to the results of the group. Says an analyst, "It is possible and actually desirable, that the company divests its interests in non-core activities as represented by these divisions. And if the price is right, we may see some divestment in these areas." In his chairman's statement last month, Fancy states: '...we continue to dispose of those assets that no longer offer us the right performance potential. From 2007, we shall also consider divestment of some high-performing assets that are not strictly aligned with our core strategic focus, and we shall be looking for buyers who fully appreciate the value of these assets and are able to realise their full economic potential going forward.'

#### **Market sentiment**

Currently the stock is trading at a multiple of 8.4 (as of March 20) up from 7.26 as of December 31, 2006. Analysts believe that this is a fair valuation considering the steady performance. This together with the changing appearance of the company's business texture from just a services to a strong, international asset-based services player with 75 per cent of its revenues accruing from overseas, has led to a 'buy' or at most 'hold' recommendation by most broking houses.

Fancy, however, conveys his disappointment over what he believes is excessive discounting by the market. For the year to December 31, 2006, absolute stock price fell

by 9.5 per cent in counterpoint to the MSM index.

“The minute you get into a multiple business setup, shareholders have no vision for a stock. So, not unsurprisingly, you will also find that very few Omani institutions have really participated in the growth of Renaissance.” Analysts echo Fancy’s sentiment that investors find it a little difficult to understand a holding company with multiple companies, each with multiple subsidiaries, rather than a single company with multiple divisions.

#### **Last word**

Risk is critical to Fancy’s personal thinking and he believes that the members of his board share that view. He accepts it when people say that they are in a high-risk business but adds that once one takes a risk, everything that follows is about controlling that risk and the cost of risk mitigation and the resultant reward is where the value lies. “That, sadly, is where there is a mismatch in the understanding of the Renaissance business model. Risk is the ticket to being a player. If you don’t buy a ticket to the ballgame, you can never be a player. But once you are a player, it is your systems, processes and your ability to manage risk that differentiates you from the pack.”

As for the world and everything in it, it may just be round the corner.

## **MEN IN THE KNOW**

### **Renaissance’s board of directors**

Samir J Fancy  
H H Sayyid Tarik bin Shabib bin Taimur  
Ali bin Hassan Sulaiman  
Sunder George  
Yeshwant Desai  
Rishi Khimji  
Colin Rutherford

### **Group Management**

#### **CEO**

Stephen R Thomas

## **EQUITY PATTERN**

### **Tawoos LLC**

11.9 per cent

### **Kuwait and Middle East Financial Investment Co**

10.2 per cent

**Others**

77.9 per cent

**MOVING FORWARD****Dec 2006**

Nico International, the Dubai based international ship repair and boat building subsidiary of TEAM, signed an MOU with Almaty based Caspian Services and the national marine company of Kazakhstan, Kazmortransflot JSC to set up a joint venture to develop a multi-million dollar vessel maintenance and repair facility on the Caspian Sea coast of Kazakhstan.

**FEB 2007**

Nico Middle East, the Dubai based offshore vessel owner and operator, a wholly owned subsidiary of Renaissance signed a charter-party agreement with OceanTeam Power and Umbilical of Norway for its cable laying vessel, Team Oman. Under the terms of the agreement, the Team Oman will operate on a 4 year firm (plus 1 year option) charter party contract. The contract that spans four years (plus one year option) is valued at an estimated US\$47mn.

**Feb 2007**

Adyard, the Abu Dhabi based oil and gas fabrication subsidiary of Renaissance won two contract valued at over US\$15mn. The first is a major oil and gas fabrication job for CTJV, a joint venture between Technip and Chiyoda. The second is for construction engineering, fabrication and load out of a Sulphate Removal Package (SRP) for Viola Water.

**Mar 2007**

Nico International won a construction/fabrication contract from FAL Energy valued at US\$24.13mn at Jebel Ali Oil Storage Terminal Dubai.