

Where growth is a way of life

An unwavering focus on its core values has helped Renaissance Services to build a business that promises sustainable long term shareholder returns.

Writes Mayank Singh

Caspian pride joined the fleet in Azerbaijan in 2007



While attending a course at Harvard Business School in 2005, I was seated next to a Scottish gentleman during lunch. He was on the same course and happened to be the Chairman of a company that owned a shipping fleet," reminisces Samir Fancy, Chairman Renaissance Services. The Scottish gentleman was none other than Colin Rutherford, Chairman of BUE Marine Holdings and the luncheon meeting presented the perfect opportunity that Fancy and his team were on the look out for. Renaissance had built up substantial cash reserves and was keen to establish an asset base with an oil and gas focus. Fancy casually outlined Renaissance plans and promised to get back soon with something more concrete. After careful consideration the senior management team realised that a deal with Bue Marine was the one which fitted their plans leading to Bue Marine's acquisition. Thus Fancy and his team were quick to convert a small opening into a momentous business deal. The success of Renaissance Services is writ with numerous such examples of foresight and perseverance against the most daunting odds.

Lets take a look at some headline numbers – The year 2007 proved to be the sixth successive year when the group has gone on to record its highest revenue and net profit of RO199.2mn and RO17.3mn respectively. These results show an annual compounded growth of 44.2 per cent in revenue and 33.8 per cent in operating profits over the last five-year period.

The company won nine contracts valued at over US\$767mn in 2007. These have an individual valuation of over US\$15mn and were disclosed by the company in its public statements. The aggregate value of all contracts won, including smaller contracts, contract renewals and contracts bound by confidentiality clauses exceeded US\$1bn.

The courage of convictions is another factor that has propelled Renaissance to greater heights. The company has never shied away from taking up challenges such as venturing into the Caspian Sea or venturing into Iraq in the most daunting



Samir Fancy, Chairman, Renaissance Services

circumstances. An ability to take on these challenges has helped it draw up an impressive list of achievements. Renaissance has a fleet that is counted amongst the top 10 in the world. Its offshore support vessel fleet holds market leadership in the Caspian with approximately 70 per cent of the Azerbaijan market and 44 per cent of the Kazakhstan market. The contract services business leads its home market of Oman with 45 per cent market share (up from 35 per cent in 2006) and has established an 11 per cent share in its new international markets.

Consistent growth

Says Thomas, "Our erstwhile businesses have been highly cash-generative and the Contract Services Group (CSG), in particular, has grown into a substantial sized enterprise. We have used the cash generated by our traditional services businesses to invest in the growth of the asset-intensive Marine and Engineering Group (MEG). This has given us an optimum balance between pure services and asset-based businesses." The approach has enabled it to spread geographically with an optimum balance between high-risk higher-reward and low-risk lower-reward markets. It has also helped Renaissance to intensify its primary focus on the oil and gas sector. This strategy has been a cardinal factor behind the regular, consistent and substantial growth seen over the past six years.

A break up of the Renaissance's various business units gives one a better understanding of the way the business is structured. The company is broadly structured into three business groups. The Marine and Engineering Group (MEG) owns and operates an offshore support vessel fleet, currently comprising 76 vessels. It has engineering businesses engaged in oil and gas fabrication, maintenance and afloat ship repair. Though this business group operates primarily in the Gulf and the Caspian it carries out contract assignments all over the world. The MEG group accounts for over 62 per cent of Renaissance business.

The Contract Services Group (CSG) provides turnkey contract services such as



Stephen Thomas, CEO, Renaissance Services

catering and facilities management, including building owning and operating substantial permanent accommodation and life support facilities in remote oil-fields. CSG accounts for close to 27 per cent of Renaissance business and has operations primarily in Oman, Iraq, Norway and, most recently, Angola.

The technology, media and training businesses account for the remaining 11 per cent of the business.

Future investments

A firm believer in reinvesting its profits into the business the company has dovetailed an ambitious RO195.5mn (US\$508mn) investment programme for 2007-09. In 2007 Renaissance invested more than RO44.6mn (US\$116mn) towards this programme.

The investment strategy focuses on three core initiatives – increasing the size and reducing the age profile of the offshore support vessel fleet; developing additional capacity and capability in the oil and gas fabrication and ship repair businesses and expanding the capacity and geographical spread of the company's permanent accommodation for contractors (PAC) facilities in remote oilfields. "This investment plan strengthens the company's businesses by significantly increasing the volume of permanent sustainable business. The investment in assets

	In OMR mn		In US\$ mn	
	2007	2006	2007	2006
Revenue	199.2	142.9	517.4	371.2
EBITA	43.0	33.6	111.8	87.4
Operating profit	27.6	21.8	71.6	56.7
Net profit	17.3	14.3	45.0	37.0



Adyard - Topside Loadout in Abu Dhabi for Atlantis

has also strengthened our balance sheet, which in turn drives the scalability of our business," says Fancy.

A major part of its investments are being used to acquire new vessels for the offshore support fleet. The company is looking at increasing the size of its fleet to around 100 vessels in the near term. All of Renaissance vessels operate in growth markets that account for more than 50 per cent of the world's hydrocarbon reserves, and most of the vessels are on long-term contract assignments with some of the major global oil and gas producers.

The company refutes any concerns about its debt equity ratio as being baseless. Says Thomas, "Our current gearing is less than one. Based on our current cash flows and the strength of the balance sheet, Renaissance can fulfill its entire declared investment programme from a mix of internal surpluses and borrowings and still remain within all existing covenants with the company's bankers and remain within the debt-equity norm for the industries in which we serve."

Core competence approach

Going against the grain of the prevailing business wisdom in the Middle East of being in a variety of businesses, Renaissance's objective is to concentrate on its oil and gas related businesses and divest its other companies. In pursuance of this objective the company has started divesting its technology, media and training businesses. In April 2008, it announced the acceptance of an offer from Oman based Services and Trade/Sobha Group to acquire its technology business comprising of IMTAC and its subsidiaries for approximately US\$41mn (RO17.96mn). The sale is expected to give the group a capital gain of RO6mn. This was preceded by acceptance of an offer from a group of Omani led strategic investors to sell its 100 per cent stake in UMS, the company's media business for RO3mn. The transaction is expected to realise a net gain of RO1.5 million.

Having finalised the details of the divestment of its technology business, the company is sorting out the modalities of its final transition. The divestment of its media arm has been delayed due to a few regulatory issues and the company is working on it. Renaissance has now turned its attention to divesting its training business.

The diversification process, though, has not been carried out with mercenary intent. The management has set out some clear rules such as considering only investors or industry players who offered positive outcomes for its people and

customers. Says Fancy, "We had others companies offering a higher valuation for our business technology companies, but price was never our prime motivator. We went ahead with Services and Trade/ Sobha because of the synergies that the latter brought to the table."

"The decision to divest our Technology, Media and Training businesses is such a wrench at the emotional level. These are great, high-performance, high-potential businesses operated by first-class people. But, at the practical level, we believe they will prosper further in their own more specialist-focused environments, while we have turned our primary focus to oil and gas," says Thomas.

On the other hand, Renaissance sees tremendous potential in the oil and gas space. As demand and supply ratios narrow more investment is expected to go into new technology and pioneering methods of hydrocarbon recovery, energy conservation and alternative energy sources. These trends bode well for the long term sustainability of the energy sector.

The core competence approach is something that the company has been moving towards for close to a decade. When Renaissance was listed in 1996 it was structured as a holding company of diverse businesses and investments and the subsequent change of its name to Renaissance Holdings reflected that proposition. In mid-1998, the company started a process of divesting its miscellaneous investments over a period of time and started to focus on the company's four core operating businesses. This led to the company re-christening itself back to Renaissance Services. Over the last decade the company's most successful businesses were built around its oil and gas clients, and its values and modus operandi got more and more aligned with the high quality and safety standards of that industry. As a logical extension Renaissance's organic and inorganic growth took place around these core competencies. The company's business units are focused on products and markets, whereas its core competencies are focused on customer benefits. Renaissance's evolution has shown that the future is not simply an extrapolation of its past. The company has logically re-invented itself around growing competencies, consistent values and fantastic opportunities.

Conceptually too, there is great merit in a focused approach. As markets go global there is a greater need for specialisation. The winners of tomorrow are sure to be those companies that lead their industry in targeting their markets carefully and producing the best value for money in those target markets.



NICO International built crew boat, the NEMO in Fujairah



PAC Qarn Alam in Oman

"In today's global market, the winners are those who stay ahead of the change curve, constantly redefining their industries, creating new markets, blazing new trails, reinventing the competitive rules, challenging the status quo. It is far easier to do that on a focused platform of core competence and core values. C.K. Prahalad said, that like a space rocket on the way to the moon, a company has to be willing to jettison the parts of its past which no longer contain fuel for the journey and which are becoming, in effect, excess baggage," says Thomas.

The road ahead

On the flip side, Renaissance, like any other business, operates in a challenging environment and is conscious about mitigating some of these factors. The company reckons that it has minimised its risks by investing in assets and winning long-term contracts that ensure continued and sustainable economic growth. Renaissance holds 10-30 year contracts with blue chip clients in the oil and gas sector. Secondly, it is focussed on a strong and growing oil and gas sector and has established good market leadership positions in the markets in which it serves.

The company's competitive position is further strengthened by its diversity and geographical spread. The oil and gas fabrication business, based in Abu Dhabi, is the dominant local and regional player in the sector with a focus on offshore construction. The ship afloat repair business is the clear leader in the region and has strengthened its international reach with bases in Azerbaijan, Kazakhstan, Oman and multiple sites in UAE. In individual markets, no single customer or supplier represents more than 10 per cent of each individual company's revenue within Renaissance with three major exceptions – for the contract services, Petroleum Development Oman (PDO) and its contractors represent 20 per cent of business in Oman, for the offshore support vessel fleet business BP represents 90 per cent of revenue in Azerbaijan and Agip KCO represents 46 per cent of business in Kazakhstan – though this reflects BP's current status as the single dominant oil and gas producer in the Caspian markets.

The company is aware of the primary challenges, obstacles and risks that may impact its growth programmes like a potential exposure to exchange rate issues, in particular the potential de-linking of various GCC currencies from the US dollar; availability and cost of financing in the post-subprime period; rising inflation in several key markets; availability of resources in the oil and gas sector – people, materials and infrastructure; availability of shipyard capacity and demand and potential over-supply of vessels in the marine industry; and any negative volatility in the oil and gas sector, including volatility of oil prices.

The company has hedged some portion of its US Dollar denominated transactions to mitigate the possible exposure from any changes in currency policy in the GCC. "So far, while there has been some post-subprime upward pressure on financing costs we have found our presence in the oil and gas sector and the nature of many of our assets being linked to long-term safe contracts, mean that our business remains an attractive proposition for financiers," says Thomas. Rising inflation in the region is also a matter of concern and the company is keeping a close watch on rising costs especially while bidding for new contracts. The fact that the company has had an excellent track record on people retention is a key factor in addressing a shortage of resources in the booming oil and gas industry. "We handle shortages in materials, infrastructure and shipyard capacity by maintaining a high level of industry expertise in our management team, focused on sourcing optimum economic and technical solutions to meet our growth needs," says Thomas.

Renaissance as a company has grown over the last decade through a process of logical and decisive evolutions. The company is today a true blue Omani multinational with offices in 18 countries and operations in more than 39 countries. Its success is a case study for others to emulate and learn from. Having laid out a solid foundation the company is now poised to catapult its growth dramatically in the next few years. Keep watching. **OER**