

**INDUSTRY**

# PIPE DREAMS

Future Pipe Industries is set to become the latest addition to Dubai's DIFX. **Sean Cronin** speaks to CEO Rami Makhzoumi to hear what investors can expect from the listing.

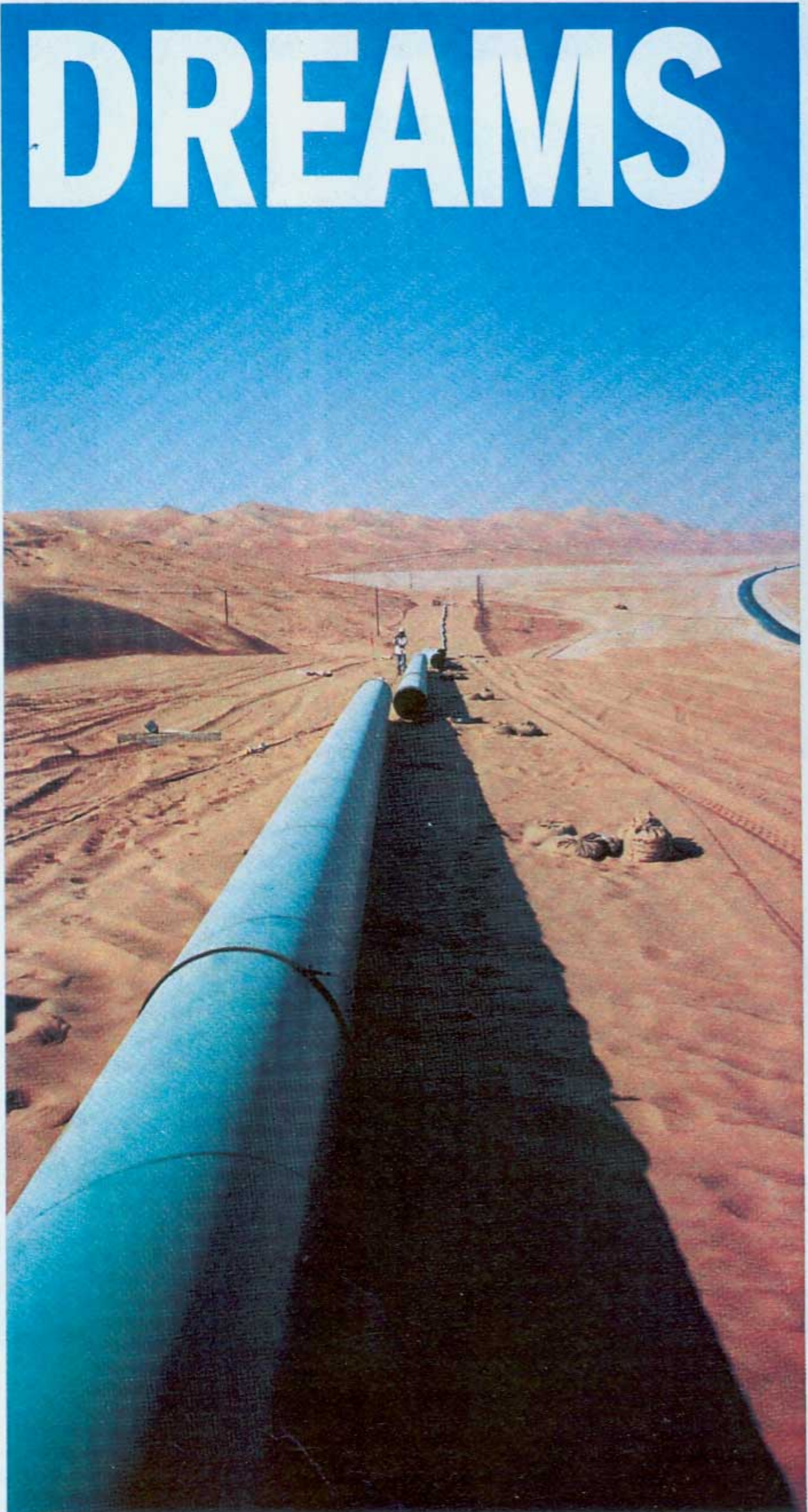
**R**AMI MAKHZOUMI TALKS almost evangelically about the pipe business. The well-groomed CEO of Future Pipe Industries has reason to be excited. The world's largest fibreglass pipe manufacturer is preparing to sell shares to the public in what will be a global offering expected in early May.

"This is an emerging technology and material. Something like Google was to the research world or what the mobile phone was to communications," says Makhzoumi. "In order to do things like these great companies, like the Googles and the Nokias of this world, going public is certainly a fundamental component."

The shares will list on the Dubai International Financial Exchange (DIFX), which was opened in 2005 with the aim of becoming the Gulf's first bourse to open to issuers and investors of any nationality.

That plays to the company's desire to tap international institutional investors as well as the local players who may more readily grasp the opportunity presented by a company that makes pipes upon which much of the oil and gas, petrochemical and desalination industries rely.

"Regional investors are important to us, but at the same time we are a multinational. I would say people in the region are



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**INDUSTRY LEADER** Future Pipe is providing the much needed components for today's oil and gas sector.



**GOING PUBLIC** Future Pipe founder and chairman Fouad Makhzoumi (right) believes the company will sell up to 35% of its shares in May.

perhaps a lot more aware of what is happening here with infrastructure and oil and gas. At the same time, people abroad in countries with, let's say, poorer economic conditions, are increasingly looking to markets like this," says Makhzoumi.

**"Oil and gas and water infrastructure is where the core of our business is"**

Future Pipe is the first new security to tempt investors since Nanodynamics Inc, pulled the plug on its planned DIFX listing in February.

It was intended to be the first US company to list its shares on the bourse, but one day before it should have listed its shares, the alternative energy company instead told the exchange that it was not

going ahead with the sale.

This latest listing is also an alternative of sorts. Future Pipe uses fibreglass to manufacture pipes, instead of alternative materials like steel and plastic.

And so far it has made enough of them to circle the globe three times, says Makhzoumi.

Future Pipe will sell up to 35% of its shares to the public although the company is not saying how much it hopes to raise from the sale, pointing to a 'book-building' process to determine the value of the offering.

The oil-fuelled economies of the Gulf are investing record budget surpluses into large-scale infrastructure and industrial projects. From Doha to Dammam, the construction boom is helping manufacturers such as Future Pipe boost sales to new oil refineries, desalination plants and district cooling facilities. The global pipe market is estimated to be worth about US\$120bn.

"Oil and gas and water infrastructure is where the core of our business is. So if you look at the infrastructure explosion in oil and gas, this consists of about 70% of our sales," he says. Spending on pipes across the Middle East is soaring with construction projects worth US\$1 trillion already underway. Utilities are also investing record sums in building new power and water plants to cope with the rapidly ex-

**THE SHARE SALE**

Future Pipe shares will be offered to institutional and local investors on the DIFX. The exchange currently lists shares, conventional bonds and structured products and is the largest in the world for sukuk listed by value.

Listed shares include Kingdom Hotel Investments, DP World and Unigold Inc.

The exchange plans to introduce other securities such as derivatives and exchange-traded funds.

The size of the Future Pipe offer will be determined by 'book-building', a process where bids are collected which are higher than or equal to the floor price of the stock being sold.

The prospectus for the IPO is expected to be ready by April 13 which will also be the first day that retail investors can start applying for shares. Retail applications will close on April 21.

The securities will be issued in US dollars. Deutsche Bank is the sole global coordinator and book runner for the offering while Citigroup and Mashreq are co-lead managers.



**FAMILY BUSINESS**  
 Rami Makhzoumi,  
 CEO, Future Pipe  
 Industries.

panding populations of cities such as Dubai and Abu Dhabi. Dubai's state utility plans to spend about US\$13.6bn through 2010 expanding power and water desalination capacity. Similarly large-scale investment programmes are also planned in countries such as Saudi Arabia and Qatar.

Outside the Middle East, the Future Pipe CEO points to the economies of Europe and the US, which he says have a pressing need for pipe replacement.

While the global pipe business may be worth an impressive US\$120bn, the fibreglass market represents less than 3% of that with a value of just US\$3.5bn.

Nonetheless, Future Pipe claims to have a market share approaching 12% in a business where the top five players control almost a quarter of global supply.

Makhzoumi also stresses the market is growing fast, helped by demand driven by the oil and gas industry, reinvesting profits accrued from record oil prices into new infrastructure. "When I first joined the business, our chairman used to send me to conferences in obscure parts of the world where they talked about gas lines running from Qatar to the UK — mega-projects that simply never materialised," he recalls.

While such projects may have been in the realms of fantasy a few years ago, Gulf budget surpluses are encouraging governments to spend on projects that are only now stacking up commercially. "Governments were budgeting oil revenues of about US\$30 a barrel," he explains. "When you hit US\$110, the surplus liquidity generated for one year alone is tremendous. These nations simply want to build to leave a legacy."

Leaving a legacy is in part, what the Future Pipe flotation is about as well. The business was established in 1984 by Fouad Makhzoumi, Rami's father. He was CEO until 2003 when his son took over the role. It is an example of the type of listing that Gulf stock exchanges have been expecting to materialise in large numbers — second generation family-run firms going public.

The group's sales topped US\$556m in 2007, but it may be the rate of sales growth

that will attract investors to the newly listed stock. Sales have been rising at a rate of more than 50% over the last three years, largely driven by demand from the booming oil and gas sector. Turnover has more than doubled since 2005.

The company employs about 3500 people from its manufacturing plants in the UAE, Saudi Arabia, Qatar, Lebanon, Egypt, Oman, the Netherlands and the US.

While Future Pipe hopes to tap rising demand for pipes in the oil and water sectors, the company may also benefit from recent spikes in the price of steel and cement, both materials used in the manufacture of pipes, which will also help the business grow sales.

"The recent scarcity of steel has made fibreglass, like for like, as much as 40% cheaper than steel. So where it was always historically well positioned, it has now become a very economic solution."

When it comes to talking about the

**"Today we don't see any immediate target in mind, but there is always opportunity for consolidation"**

company's plans post-IPO, Makhzoumi is more circumspect and he insists the share sale is not just about raising cash.

"Historically we have grown organically and that will remain. We will continue to add new facilities and we have 12 new machines already on order," he says. "In terms of acquisitions, it's opportunistic. Today we don't see any immediate target in mind, but there is always opportunity for consolidation." Makhzoumi shrugs off any suggestion that the volatility in global equity markets will deter investors from picking up the company's stock — pointing to the fundamentals of the business and the abundant liquidity in Gulf markets.

"This is not PR. It's not a marketing story. You can look at our results and see the business model. The reality is we were able to take fibreglass from 8% usage to 22% in 10 years," he says.

"That is the proof of the business we are going to the market with." **AB**