

Rami & the Pipe business– 2008

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Steel Pipes Now Have Competition

by Kunal Bose

June 10, 2008: It was not that very long ago. Then in his early 20s, the well-groomed Rami Makhzoumi with a coveted management degree from London Business School, joined the family owned Future Pipe Industries. His father Fouad Makhzoumi having seen in his son the potential to take the family business to greater heights would ask Rami to go to industry conferences in "obscure parts of the world." He would be exposed to industry officials talking somewhat glibly about pipelines being laid from West Asian gas deposit points to consumption centres in European countries.

All the ambitious projects discussed at such conferences remained good on paper or as Rami says, "simply never realised." But with oil prices at around \$130 a barrel, the projects that earlier looked beyond the realms of possibility could now be financed with surpluses available with the Gulf nations. More importantly perhaps, the Gulf leaders are driven by a desire to take up big projects in order to "leave a legacy." This is what Rami says today. A Gulf based merchant banker said, Rami's exposure to big ideas at an impressionable age, all thanks to an avuncular father's foresight, has rubbed off well on the working of Future Pipe.

Rami became CEO of Future Pipe in 2003 in yet another instance of the mantle passing from the father to the son in a family enterprise. Why did Fouad, who created the company in 1984 anticipating early that fiberglass would emerge as an important raw material for making pipes and tubes, make room for his son at the top when Rami was only 26? (Fouad holds the office of executive chairman. Nevertheless, the day to day running of the company, induction of the best man for a job and making a resounding presence in the US and Europe are left to Rami.)

What has helped a smooth succession is the common father and son belief that there is "birthright to ownership but not to management." Seeing the tripling of the size of Future Pipe since Rami took control and a number of breakthrough orders (not necessarily in terms of value but for application of fiberglass pipes in oil and gas, a preserve of steel pipes,) enriching the order books, family business skeptics will concede that the mantle in this case rests on the right shoulders. The company planned for a flotation on Dubai International Financial Exchange last month. This, however, had to be dropped "due to conditions in the equity capital market and recent events in financial markets."

Whenever the IPO happens – Future Pipe earlier this year was valued at \$1.5 billion – which will see the owner family divesting up to 35 per cent of its holding, the potential investors will give greater weight to the bottomline growing faster than the topline. A fundamental consideration for the change of guards, according to Rami, is the father's timely realization that in order to "migrate to a successful multinational business," there is need for moving away from the "entrepreneurial side of the business." Future Pipe, unarguably the world leader in large diameter fiberglass pipe industry, has 11 factories around the globe, including the US and the Netherlands. But the company's manufacturing profile is particularly impressive in the Middle East where for many years to come, the growth in demand for pipes will be much higher than in any other parts of the world.

Let's look at the world pipe industry in general and how fiberglass pipes are emerging from niche segment into application mainstream. The global pipe market is worth \$125 billion in which the share of fiberglass is \$3.5 billion. But where the fiberglass sector score is that it is growing at a 50 percent higher rate than the rest of the pipe market and therefore, is steadily eating into the share of other materials. There is one thing about pipes – when it comes to taking drinking water to people and providing them with sewage facilities or to carry oil and gas across national frontiers – that new lines must be laid and the ageing ones replaced irrespective

of the health of the world economy. Rami puts it cogently that the "beauty of our business is that it's independent of economic cycles. It's virtually recession proof."

Future Pipe is now making the best of its fiberglass products, as the mainstream pipe makers have to cope with both major price inflation and shortages of steel. If anything, the steel price and supply problem will become increasingly serious as the two principal raw materials – iron ore and coking coal – are costing so much more since April. "The scarcity of steel has made fiberglass, like for like, as much as 40 percent cheaper than steel. So where it was always historically well positioned, it has now become a positive economic solution," according to Rami. An industry official said, the creeping recession in the US and other countries will lead utilities in the government and private sectors to look for cheaper alternatives if product quality is not a problem. That should be music to Future Pipe's ears.

Like for like, the performance of fiberglass pipes in carrying water and disposal of sewages is proved to be as good as pipes made of steel and cement. High pressure fiberglass pipes are now being used for transportation of oil and gas, thanks to Future Pipe leading the charge of conversion. By virtue of most of its manufacturing capacity in the Middle Eastern countries, including Lebanon, Oman, Qatar and Saudi Arabia, the company is strategically placed to benefit from a major part of surpluses from crude sales getting invested in infrastructure development, construction of residential and office building and laying of new pipelines of all kinds.

According to one estimate, the region is seeing investment of over \$1 trillion in construction projects creating in the process strong demand for pipes. At the same time, utilities in Gulf cities are spending like never before to build power stations and water plants (including desalination facilities) so that migrants from all over the world will find the region a good place to settle down. Fiberglass pipes have a usage rate of 22 per cent among all kinds of pipes in the Middle East, but the manufacturers think the penetration potential of this genre of pipes is much higher here. Ten years ago, the penetration rate was 8 per cent. Moreover, with oil prices doing so well, there is not going to be any slowdown in demand for pipes in Gulf Cooperation Countries (GCC.) It is no surprise, therefore, that Future Pipe has placed orders for 12 new machines.

Any idea when were the first pipes laid. Around 3000BC, the world saw the laying of pipes for the first time. Fiberglass is only a 50-year-old material. But being a non-corrosive material with capacity to withstand high pressure, it is finding application in the highly quality demanding gas and oil sector. As Future Pipe says, "fiberglass is an emerging technology. But it will redefine the global pipe industry. We will be the driver of that redefinition." Fiberglass pipes are found to be highly cost effective over the long term because of their durability. They last longer than metal, clay or concrete pipes. Because of its chemical composition, fiberglass does not corrode. Moreover, its inherent flexibility makes it highly immune to cracking. Steel will have to contend with competition from the rapidly emerging fiberglass in pipes and tubes.

Source: Steel Insights