Al Hassan Engineering Group

Start-up, growth and transition of an entrepreneurial family company from the Arabian Gulf

Successful entrepreneurs start their business with a vision and strive to accomplish this with a passion. They act on their dream by taking small steps towards accomplishing their goals. With every step, entrepreneurs get closer to attaining their ultimate goal. The story of Al Hassan Engineering Group is such an example of entrepreneurial family enterprise from the Arabian Gulf.

About 40 years ago, Maqbool bin Ali Salman began his entrepreneurial journey at the age of 22 with the establishment of Al Hassan Electricals, a small company dealing mostly with lighting products. This was his first venture founded with the support and guidance of his elder brother Hassan bin Ali Salman. As a young man, Maqbool believed that pushing oneself out of comfort zone into doing more challenging tasks was the key to learning and growing, and becoming an effective leader. Maqbool resigned from his secured job at Petroleum Development Oman (PDO) after a relatively short time, and went into the challenging world of business at a time when business opportunities were limited in Oman and he had limited financial resources. Maqbool overcame the initial inherent resistance that most people have to. The idea of leaving the comfort of working with a very respected and highly paid company in the country was not easy. But today he is known as one of the business leaders in Oman and the Gulf region.

The Humble Beginnings

Maqbool Bin Ali Salman (62) started his career with the Petroleum Development Oman (PDO) after the completion of his first degree in Management. Maqbool got interested in business from his childhood, when he was exposed to it while helping his father in his small shop at Mattrah Souq (a traditional Arab market) in Muscat. Even though his passion had always been to start his own business, he had to work to save the needed capital. Initially, Maqbool operated his small business on a part time basis while he kept working in his shop in the afternoons and weekends. At the age of 22, he took calculated risks by resigning from his secured job with

PDO to pursue his dream of developing his own business. He obtained a degree in commerce from Pakistan. Financially supported by his brother, his dream came true in 1975 when a very small business, dealing with lighting products was established with the name *Al Hassan Electrical Company* (AHEC).

He started with only one employee along with himself. At the beginning, things were not that rosy for Maqbool. Sometimes the company had to wait for long to make any sales, but Maqbool persevered. Like any other businesses, Al Hassan Electrical Company faced teething problems. Maqbool used to run business but sometimes at the end of the day ended up with no cash in hand. One of his early opportunities was when he found a trader who could not sell his ceiling fans. Maqbool agreed to sell the fans for him in return for free business rentals of space for his own business. Such an arrangement helped Maqbool's initial business efforts. However, this arrangement did not last for long. A few months later Maqbool found himself without a shop to operate from, he was told to vacate the place. At that point, the business was slowly growing and Maqbool did not want to give it up. Faced with this accommodation dilemma, he did not know what to do. However, a few weeks later in 1978, he found another location for his business at Al Hamriyah, a popular business location in greater Muscat. Conditions at the new location were not good; the new premises did not have electricity for a year. Maqbool and his employee suffered from the heat and dust but that did not deter him from running his business. The move to Al Hamriyah was actually in the best interest of the company and this reflected the real beginning of the AHEC. He employed more people and rented more office spaces and witnessed gradual increase in sales and earnings.

The creation of Al Hassan Electrical Co. was not just by luck; Maqbool had had a passion for business from his early years. The time he spent helping his father at his small business groomed him for his business startup. He realized the opportunity at an opportune time and seized it. When Maqbool started his small business, there were opportunities in Oman. There was certainly a need for electrical products and services. With the experience he gained from his father's business and from PDO, Maqbool already exhibited entrepreneurial and managerial skills which he used in his new business. He managed the small amount of capital he and his brother invested.

Like any other entrepreneurs, Maqbool also faced a lot of difficulties. Although, the start-up capital was not much of a problem for him, he had challenges in keeping up with responsibilities between his employment at PDO and his small business. He had to manage two jobs at the same time. Furthermore, when his business expanded, he faced difficulties in finding capable labor in Oman. He had to travel overseas to interview foreign workers. Maqbool mostly operated his small business by credit sales. He offered goods to customers on credit but his debtors sometimes were unable to pay their debts and some of them disappeared. At that time, there were no clear laws pertaining to debt collection, so this became a serious problem for Maqbool.

Today he has a successful business which has presence in Oman, UAE and Qatar. He still remembers his father's advice: "take care of your customers and you'll be automatically taken care of your business", Maqbool said of his father's words.

Maqbool attended many courses, seminars and conferences just to expand his knowledge and insights in the business. He believes in self-educating through learning from magazines, exhibitions and conferences. Since he obtained a commerce degree, his electrical knowledge has been leveraged by self-learning.

The Company Growth History

From the humble beginnings with only one employee in 1975, AHEC has steadily grown and today it has a staff complement of over 5000 employees, recruited from around the world. The company earned a revenue of over $113 million in 2013. It has achieved a record of successfully meeting its customers' requirements and exceeding their expectations. Today AHEC is one of the leading Engineering, Procurement & Construction (EPC) contracting and construction companies in Oman. It is now one of the largest distributors of electrical equipment, lighting products, energy management systems, transmission and distribution equipment and building construction products in the country. AHEC has executed projects in core sectors such as Oil and Gas, Power, Electricity Transmission & Distribution, Industrial Infrastructure, Operations and Maintenance of Oil & Gas installations, Water and Wastewater Treatment Plants.

AHEC was listed on the Muscat Securities Market (MSM) in 1998, and it has consistently featured in Oman Economic Review (OER) Top 20 listed companies in Oman. Obviously, this

listing of the company at MSM reflected a true transition phase in the growth phase of the Group.

Strategy and CSR Initiatives

Maqbool's integrity and business acumen has been a key to success in business. He always made sure that each deal he made was a win-win situation for all parties involved. He developed strategic relationships with clients for long-term growth potential rather than pursuing get-rich quick opportunities.

The company recognizes and appreciates the role of its employees. As of 2013, there were over 5300 employees in the parent and subsidiary companies. It takes care to identify, attract and retain qualified employees in order to support its business growth. The company periodically reviews and publishes job descriptions of employees so that the employees are aware of their responsibilities, duties and rights. The company does its best to nurture and provide a supportive work environment for its employees.

AHEC also shows increasing concern in corporate social responsibility (CSR) and quality, health, safety and environmental (QHSE) management issues. During the year 2013, the company participated in a number of initiatives aimed at providing a sustainable contribution to the wellbeing of local community. An amount of over $50,000 was spent in a number of activities including:

- Contributions to various sports, health and cultural activities in Oman.
- Employment and training of local community in the company
- Provision/establishment of local community infrastructure
- Contributions to the children educational activities through Mobile Library facility

The employees of the company as well as sub-contractor employees engaged at various ongoing sites are provided with HSE induction and are medically examined. Its QHSE systems are certified to the latest edition of international standards ISO 9001:2008. Its ISO 14001: 2004 and

OHSAS 18001:2007 have also been re-certified by M/s Vincotte International Middle East, during its recent surveillance audit.

The company has established its Internal Audit system that can assess, verify and ensure compliance with the established company business procedures and established company management rules. It has an Audit Committee that regularly meets with Internal Audit to assess the effectiveness of the internal control system

Al Hassan Businesses

Al Hassan Group has 11 operating companies in Oman and the UAE which are classified under three Strategic Business Units (SBUs), *viz.*, Contracting, Manufacturing and Trading. Al Hassan Group has also formed a joint venture with Asian Paints for manufacturing paints.

1. Contracting SBUs

Al Hassan Engineering Co. S.A.O.G., Oman (listed at MSM)
Al Hassan Engineering Co. Abu Dhabi L.L.C.
Al Hassan Engineering Co. Dubai L.L.C.

Al Hassan Engineering Co. S.A.O.G. (AHEC) is the first contracting company in Oman to be listed on the Muscat Securities Market (Code: HECI) in 1998. AHEC is a well-known contracting company with capabilities in civil, mechanical, structural, electrical and instrumentation and pipeline disciplines and is currently executing many projects in Oil, Gas & Petrochemicals, Power, Water and Wastewater sectors.

2. Manufacturing SBUs

Al Hassan Switchgear Manufacturing Co. LLC
Al Hassan Power Industries LLC
Al Hassan Lighting and Fan Industries LLC

The Manufacturing SBU is an Omani manufacturer of MV & LV Switchgears, Control & Relay Panels and Light Fittings. It is a leader in Switchgear Business with the largest market share in Oman and a large part of its production is exported to Arab Gulf Co-operation Council (AGCC) countries.

3. The Trading SBUs

Hi-Tech Services & Supplies LLC, Oman
Al Hassan Electricals Co. LLC, Oman
Al Hamas Trading Co. LLC, Dubai
Al Sahwa Trading Co. LLC, Abu Dhabi
Noor Al Khaleej Trading Co. LLC, Abu Dhabi

The Trading SBU has over three decades of experience in representing and marketing Electrical, Transmission & Distribution Equipment, Lighting, Oil, Gas & Petrochemicals, and Water related products from world leaders within Oman and UAE.

4.Joint Venture

Al Hassan Group has a joint venture with India based Asian Paints Group for manufacturing of paints, which operates under the brand name *Berger Paints* Oman. Berger Paints Oman produces a wide range of products for the Omani market including emulsions for interiors and exteriors, enamels, putty, undercoats, specialty finishes, wood finishes, protective coatings, etc. The company also exports to the UAE and Bahrain.

Ownership and Management

Since inception, AHEC has grown. Its shares are now being traded at Muscat Securities Market. The majority shares are still being held by the family members. According to their latest Annual Report (2013), shareholdings of more than 5% of total shares as on 31 December 2013 are as followed:

Table 1 Company Share Holdings

	Shareholder name	No. of shared held	Shareholding %
1	Hassan Ali Salman	15,092,000	20.07
2	Maqbool Ali Salman	15,092,000	20.07
3	Al Hassan Electricals Co. LLC	15,008,000	19.96

Source: Company Annual Report, 2013.

AHEC is committed to proper corporate governance and strives to promote a culture of compliance. They try to ensure good governance through a number of activities that include the following:

- Regular management reviews and structured written reports by management to the Board.

- Periodic communication with the shareholders
- Establishment of international regulations, operating procedures, human resource and administration manual, and accounts manual to ensure effective internal control.
- Monitoring adherence to these by the Operating Management through frequent checks by ISO Audit, HSE Audit, Internal Audit and Audit Committee (Company Annual Report, 2013).

The Company is committed to the business integrity and high levels of transparency. The Board supports the highest standards of Corporate Governance and promotes the culture of compliance. The Corporate Governance of the company seeks to facilitate the achievement of the objective of increasing long-term shareholders' value and maximize interest of other stakeholders.

The company is run by a team of senior managers who are recruited based on their qualifications, expertise and experience. Table 2, below provides brief profiles of the current senior management team.

Table 2 Brief Profiles of Top Managers at AHEC

Name and position	**Experience**
Dr. Fahd Bakour CEO Al Hassan Engineering Company (AHEC)	Experience of over 25 years. Responsible for the overall professional managerial activities of the company
Peter Hall – Chief Executive Officer (retired after 5 years)	Experience of 35 years. Responsible for strategy and day-to-day management of the Company.
Shahzad Sadan – General Manager- Organizational Development	Experience of 30 years. Responsible for Organizational Development issue
Taketsugu Kimura – General Manager- Business Development	Experience of 41 years. Responsible for Business Development
S A Naqvi – General Manager-Plant	Experience of 41 years. Responsible for all fixed and mobile plant assets and capital equipment.
Abbas Muljiani – General Manager-Finance & IT	Experience of 30 years. Responsible for the Finance and IT functions of the Company.

Source: Company Annual Report 2013

Recent Performance

Al Hassan Engineering Company reported sales of 62.57 million Omani Rials (US$162.52 million) for the year ending December of 2013. This represents an increase of 26.0% versus 2012, when the company's sales were 49.67 million Omani Rials (RO 1=$2.60). The Company's consolidated financial statements are provided in Exhibits 1 and 2.

Table 3 below show monthly high/low share price data for financial year 2013.

Table 3: Market Price Data
Monthly High / Low share price data for financial year 2013:

Month 2013	**High**	**Low**	**Volume (RO*)**	**MSM Index (Average)**
January	0.170	0.150	688,829	5808
February	0.173	0.153	2,662,954	5898
March	0.185	0.170	4,122,691	6074
April	0.214	0.182	6,907,854	6158
May	0.212	0.181	2,683,992	6314
June	0.230	0.196	4,827,433	6461
July	0.245	0.200	2,173,970	6565
August	0.264	0.224	4,302,325	6807
September	0.248	0.206	3,427,324	6589
October	0.275	0.228	2,947,261	6658
November	0.266	0.255	2,384,216	6755
December	0.267	0.249	700,204	6782

RO (Riyal Omani) 1=US$ 2.60

Opportunities and Challenges

Government investment remains to be the central pillar of construction activity in Oman. The Omani government has major infrastructure development plans and projects and construction opportunities are expected to increase in the country. Oman's 2013 budget outlined capital projects worth US$10.6 billion for transport infrastructure, health and education, as well as water and wastewater projects. An amount of US$32 billion was due to be awarded to the construction and transportation sectors for the financial year 2013-14. This represents a big opportunity for AHEC. Another opportunity is the maintenance of the political stability in the Sultanate of Oman which provides a suitable industry environment

for AHEC. There are also signs that the Dubai real estate market is picking up and this is expected to result in increased demand for housing and social infrastructure across the region. The recently announced World Expo 20/20 to be held in Dubai, has added an additional impetus to the industry environment in the region.

A key challenge for the AHEC remains to be the capacity pressures on the local talent. Besides, the construction and contracting businesses always have some inherent risks of scope/resource estimation, as well as cost increases and competition. Despite the present industry environment, the company management believes that they are well placed to secure significant business in 2014 from the BP Khazzan and ORPIC Sohar Refinery Expansion projects.

Concluding comments

As Maqbool (62) has one son and three daughters and he is aware of the need for a succession plan of his company. His daughters are working in the company on part-time basis while his son has just been graduated and currently working for an international company. After he gains some industry experience working with other organizations, he is expected to join the company. Once he retires, Maqbool wishes to engage in social work and to share his experience with the society but he knows that he will keep in touch with the business. Maqbool's piece of advice to a first-time entrepreneur is "focus, focus and focus".

References

Al Hassan Engineering Co. (2013) Company Annual Report, 2013.

Bygrave, W. and Zacharakis, A. (2011) Entrepreneurship; John Wiley & Sons. 2nd edition.

Timmons, J. and Spinelli, S. (2007) New Venture Creation; McGraw-Hill Book Co. 7th Ed.

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Exhibit 1Al Hassan Engineering, Balance Sheet as at 31 Dec. 2013 and 2012

		2013 Group RO*	2012 Group RO
ASSETS			
Non-current assets			
Property and equipment		10849058	10680467
Leasehold land		777776	808888
Goodwill		878478	878478
Investments in subsidiaries		-	
Retentions receivable		316342	273861
		12821654	12641694
Current assets			
Inventories		3693010	2639913
Contract and other receivables		49280344	39533282
Bank balances and cash		3153352	937087
Total assets		68948360	43110282
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		7520800	7520800
Legal reserve		1871949	1818292
Retained earnings		2795280	2193646
Hedging reserve		4356	9980
Total equity		12192385	11542718
LIABILITIES			
Non-current liabilities			
End of service benefits		2923371	2489407
Deferred taxation		254612	132135
		3177983	2621542
Current liabilities			
Term loans		-	1924500
Bank borrowings		28853729	21311746
Trade and other payable		24705563	18292528
Provision for taxation		18700	58942
		53577992	41587716
Total liabilities		56755975	44209258
Total equity and liabilities		68948360	55751976
Net assets per share		0.162	0.153

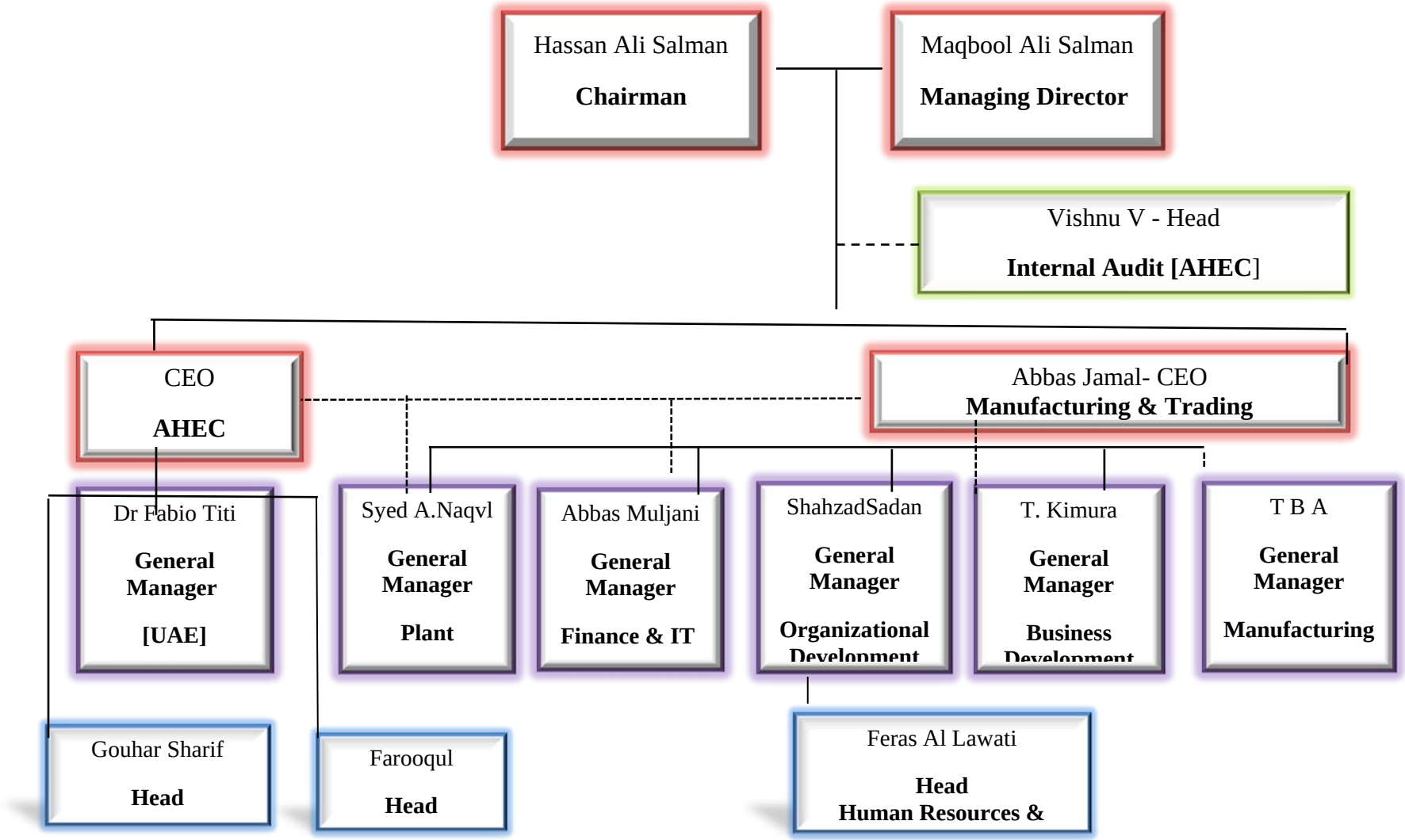
Source: Company Annual Report, 2013

Exibit2Al Hassan Engineering, Consolidated Income Statement at 31 Dec. 2013 and 2012

	2013 Group RO	2012 Group RO	2011 Group RO	2010 Group RO	2009 Group RO	2008 Group RO	2007 Group RO
Contract income	62571137	49673352	60676339	601001041	53957220	45031292	35210730
Contract costs	-58261261	-50318968	-54282675	-52684049	-46697284	-39191168	-29734265
Gross profit/(loss)	4309876	645616	6393664	7415992	7259936	5930124	5476465
Other income	777100	605504	423041	308491	332307	217119	340847
General and administration expenses	-3376479	-3093759	-3332334	-3405402	-3284042	-2880671	-2200925
Operating profit/(loss)	1710497	-3093759	3484371	4319081			
Finance charges	983196	-824151	-724153	-892907	-1277569	-918788	-1360465
Profit/(loss) before taxation	727301	-3917910	2760218	3426174	3030632	2347784	2255922
Taxation	72010	158916	-299622	-756099		-327911	-139133
Profit/(loss) for the year	655291	-3758994	2460596	2670075	2641149	2019873	2116789
Other comprehensive income Net change in fair value of farward currency contracts	5624	19974	17308	-121643	37994		*RO 1
Total comprehensive income/(loss) for the year	649667	-3739020	2218354	-2548432	2679143		
Basic earnings/(loss) per share	0.009	0.05	0.029	0.036	0.035	0.027	0.012

=US$ 2.60 (appr.)

Source: Company Annual Report, 2013.

Figure 1: Al Hassan Engineering Company's Organizational Structure as of December, 2014

Source: Company website, 2014