

Q&A INTERVIEW

Engineering Growth Across Saudi Arabia

IKK Group's focus on localization on its path to becoming a leading player in Saudi construction, and the sector's role in the Kingdom's transformation.

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"There is a gold rush happening in Saudi Arabia in terms of its construction boom."

AMR MAMOUN ALKABBANI · IKK GROUP

How would you characterize Saudi Arabia's current construction industry?

The construction sector in Saudi Arabia plays a key role in developing the Vision 2030 initiative and is currently experiencing a major boom. The nation is a key market in the region and around the world, largely driven by its mega projects that are the cornerstones of the Vision 2030 program. These developments are leading the construction industry, which includes factories producing specialized building materials and engineering and design work. There currently exists a lot of pressure on all the players due to specific timelines and certain requirements that did not exist before. These new elements have put a lot of pressure on all stakeholders involved in the value chain, which is forcing companies to become more efficient. Involved companies adapting to these new developments will come out much stronger and better equipped to face the future. Additionally, this level of activity has attracted a lot of competition, both locally and from abroad. These include companies from the West, China, the UAE and Egypt. There is a gold rush happening in Saudi Arabia in terms of its construction boom. Competition is crucial for development, but it takes a period for all companies to adjust.

What major milestones has IKK Group of Companies passed to become one of Saudi Arabia's lead manufacturers?

The first major milestone for the company was the decision taken by my two uncles to move from government-related business to the private sector. They set up a plastic pipe and fitting factory under the name Neproplast in 1968. The company began adding certain elements to complete the range of the factory as you cannot have a fully producing factory of plastic pipes and fittings from day one. We added more by sourcing from other parties to offer our clients a complete range of products. Following that, we moved on to forming a trading company to purchase all the production from the factory.

From there we went on to replicate this model, such as setting up Unitech, our specialized building material company, and Specialized Factory for Steel Products or SFSP. We now have a factory that engineers, develops and manufactures products made from light steel, from cable trays to garbage shoots. In the early 1990s, we expanded into specialized contracting, including providing specialized contracting such as waterproofing for flooring and firefighting paints for structure repairs. We then created IKK Group of Companies that works all over the Middle East and North African region, with a base in Dubai.

What competitive advantages does the company have in terms of partnering with foreign participants in Saudi Arabia?

One of our competitive advantages includes our deep roots in Saudi Arabia and our local capabilities. We are not a company that is dependent only on brokers, talent and knowhow from abroad and imported goods from China or the UAE. It is crucial with all the challenges in the market today that one remains not completely dependent on imports. We produce our products in Saudi Arabia, and most of our engineering is done in Saudi Arabia. We represent a lot of knowhow and market knowledge for companies coming in from abroad that want to participate in the growth in Saudi Arabia. Many companies come to us because of our reputation.

For example, we created the joint venture company IKK Mateenbar with a New Zealand company called Pultron Composite. They came to Saudi Arabia, and we discussed establishing a new business. We got to know them and went to visit them in New Zealand. It is a family business, and it was important we see how we each do business, our values and connections. Going into business together is very much like a marriage; it is a very important decision.



Amr Mamoun Alkabbani
CEO

What is the company's approach to bringing new innovations to the market?

We do not do anything, and we do not do everything; we are very focused, and we do not like to go outside of the main pillars of our business, which are manufacturing, trading and specialized contracting and applications. However, whenever we see an innovation in the market that can, for example, increase the number of paint colors, we are interested. When we started Neproplast, the main piping systems in Saudi Arabia's water networks were all made of steel. We came to the market with plastic pipes and fittings, which was a novelty. At the time, there was a lot of pushback from competitors, such as saying rats would eat the plastic pipes and they would not work well with water. Bringing innovations to the market can be an uphill battle. However, steel pipes are now a thing of the past; it is now all various types of plastics. Our company continues to base itself on championing new products such as these.

We are currently bringing a new product to the market that was developed through our joint venture IKK Mateenbar. In traditional construction the foundation is built on steel bars or steel rebars and cement is poured on top of them. In doing this, the construction industry relies on a lot of steel, which has its advantages but is also not very sustainable as it consumes a lot of energy to process it. The alternative is fiberglass reinforced rebars, which we recently introduced to Saudi Arabia. The new product is much more friendly to produce, uses less energy, is lighter and has a higher tensile strength. Today, around 99.9% of the local market is using steel rebars and we will need to climb the same uphill battle as we did with plastic pipes and fittings 60 years ago. It will not be easy, and it may take us five to 10 years to bring the new technology fully to the market.

Has IKK Group of Companies considered going public through an initial public offering (IPO)?

There are three main reasons why private groups and family companies decide to perform an IPO. The most obvious reason is that the family wants to cash out. The second reason — and the more important reason in my opinion — is continuity. When families grow it can become complicated to maintain the proper family governance required to keep the company focused and moving in the right direction. An IPO is one way to crystallize the company by bringing in professionals to help run it. The third reason is that IPOs provide an avenue for growth. At a certain stage it is possible banks will not support your growth process and capital is required for the next step.

At IKK Group of Companies, we have already transitioned from the first generation of the Alkabbani family to the second generation, which has luckily gone very well. It is now up to the company's current leaders to preserve the growth of the company while passing it on to the third generation. An IPO is something we are considering. We have already taken certain legal steps to have a joint stock company. We also have certain required governance elements already in place, such as committees and external board members. We are positioning the group from almost all angles to become a candidate for an IPO. Once that is completed, it will be up to myself and my cousin, Chairman Hassan Isam Alkabbani, to decide when will be the right time to approach the market.

How would you assess the level of research and development in Saudi Arabia?

We perform research and development on an individual basis for each company within the group. Each factory has its own research and development unit that is always looking at ways to make production more efficient and introduce new products, including alternative raw materials. While this is a good setup, the local market has yet to climb to the same level as international companies. Saudi Arabia needs to become more of a magnet to bring in knowledge and skills. However, the momentum is there. The country set up King Abdullah University of Science and Technology to bring university students and faculty members from abroad to create think tanks and elevate local knowhow. Mega projects that are much talked about such as NEOM and The Line are attracting new capabilities. There is also the mountain project where Saudi Arabia will host the 2029 Asian Winter Games that we are involved in. There is also Sindalah Island and all the islands around it. Additionally, there is a project called Oxagon, which is a new city that will be half on the shore and half offshore with both a logistics center and a think tank to bring in companies with advanced technologies. These mega projects are each an attempt to make Saudi Arabia not only a good place for the construction sector, but also to build up advanced knowledge and technology. Cement, brick and mortar is not enough; we require further elements to populate these projects and make them work. For me this is one of the largest challenges for companies in Saudi Arabia.

What is IKK Group of Companies doing to upskill local talent?

King Fahd University of Petroleum and Minerals is a very good starting point for developing people of talent. This university produces some of the top talent in Saudi Arabia. These graduates are generally picked up by large players such as Saudi Aramco and Saudi Basic Industries Corporation. Saudi Aramco has also set up several institutes and academies to develop practical areas of skills required in this business. However, their effort is not enough. Saudi Aramco initiated the In-Kingdom Total Value Add program in 2015 that forced companies to tick certain boxes if they wanted to do business with the energy player. One of these boxes is based on workforce, which includes attracting, training and retaining talent. We participate with the program for the two following reasons: financially and to train young Saudi men and women to bring value to our company. It has been a positive journey and there is still a lot more work to be done in this area.

What is required for Saudi Arabia to advance to its next level of industrialization and social wellbeing?

In terms of the next five years, Saudi Arabia needs to complete some of its mega projects. However, we will not be able to complete all of them in a five-year horizon. Utilization of these projects is a crucial step; there needs to be traffic and people from within Saudi Arabia and outside Saudi Arabia participating in these mega projects. Part of this is tourism and part is industrial. Saudi Arabia has a very young population, and this population needs to develop and have jobs. Receiving a high salary from the government does not apply anymore; one requires high-value jobs. We require Saudis to operate all that is being constructed. Attracting activity will trigger local employment. However, this will not be enough, and we will need talent from abroad to help create a virtuous cycle. Currently, the government is funding all these mega projects, which is normal in this type of national transformation. However, at one point it is up to the private sector to enter the market, including entrepreneurs, to shoulder this development.