
Management Deliberation & Analysis Report - 2021

General Overview

The construction industry has been severely impacted by the COVID-19 outbreak. The pandemic impacted the growth across key sectors especially the construction sector over the short to medium term, and recovery is expected to be slow.

The factors driving the growth of the market are the Sultanate’s strong economic diversification plans, which include developing and diversifying the economy and releasing its potential for growth, with the ultimate goal of promoting development and competitiveness through increased government spending on key non-oil sectors and stimulating private investments. Prior to the pandemic, the region's construction industry was facing significant issues as a result of project delays and fierce competition in an overcrowded regional market.

The country's decreasing credit rating harmed the overall investment climate, prompting it to take remedial actions to mitigate the economic implications by implementing a package of policies to maintain financial stability and support the afflicted industries. The amount of money spent on development and connecting infrastructure projects has been reduced.

The Oman budget for 2022 encourages investment and pushes the private sector to lead and revitalize the economy, as well as expand private-sector cooperation projects. Prioritizing the implementation of projects that serve economic and social objectives related to productive sectors, particularly sectors of economic diversification, and deferring the implementation of non-urgent projects, as well as placing a high value on the operation of projects completed during the year.

Performance overview in 2021

The company was able to turn profitable in 2021 after two continuous years of losses, due to the various measures initiated in 2020-21 to mitigate the impact of Covid-19 and low oil prices which includes strategic transformation, Organization restructuring & rationalization of resources, Re-alignment of its business units to market changes, Expanding the addressable market, and steps for reducing fixed overhead costs. The company continue to monitor the progress of the various project performance initiatives such as its Near-Term Sustainability Program to accelerate identification and implementation of quick win saving ideas, Digitalization Drive towards digital transformation, and Productivity Improvement Programs. These transformation strategies and initiatives have started bearing fruit and the company is able to sustain a positive trend in the last 4 quarters.

The Company managed to generate a positive cash flow during the year. The Company was successful in collecting certain long pending receivables from its clients. This has facilitated to reduce its bank borrowing to record lows. However, there are significant amounts of overdue receivables which yet to be collected especially from Government entities. Asset turnover ratio for the year is also very much improved in comparison to previous periods.

The Group Financial Statements for the year ended 31 December 2021 recorded a Turnover of RO 187.9 m (2020: RO 208.9m) with a profit after tax of RO 1.3m (2020: loss RO 28.3 m). The Parent Company’s Turnover for the year ended 2021 was RO 177.4m (2020: RO 196.9m) with a profit after tax of RO 4.6m (2020: loss RO. 26.1m).

The performance of the subsidiaries as at the year ended 2021 are as follows:

Galfar Aspire Ready-mix LLC, which produces ready mix concrete, recorded a turnover of RO 11.3m (2020: RO 13.8 m) with a loss after tax RO 0.8m (2020: RO 1.2 m).

Aspire Projects and Services LLC which is a specialized engineering and services company had a turnover of RO 2.9m (2020: RO 3.9 m) with a loss after tax RO 2.6 m (2020: profit RO 0.9 m).

Al Khalij Heavy Equipment & Engineering LLC which specializes in hiring out of equipment had a turnover of RO 1.6 m (2020: RO 1.3 m) and made a loss RO 0.044m (2020: profit RO 0.005m).

During the year under review the Company has received new orders worth RO 147 Million and additional work within the available contracts worth RO 59m. This has contributed to increase in the value of orders on hand as on 31 December 2021 to RO 405 million.

Business Scenario

In the recent past, Galfar introduced the "Transformation Strategy" to address the latest challenges and to position Galfar better to serve the market, a plan has been put in place to steer Galfar's future direction and focus. This technique worked effectively, and Galfar gained greatly from it. All operational units have been reconfigured to rationalize resources, reduce costs, adapt to market changes, and line up with the diversification streams laid out by the country as part of its 2040 vision.

One pillar of the transformation strategy is to focus more on delivering renewable energy projects, solar in particular. This is important from a sustainability outlook as well as the prominent economic gains, given the latest electricity tariff hikes.

Galfar has adapted to Oman's Vision 2040, ensuring that we contribute in ways that would enhance sustainability, promote nationalization, and provide innovative headway in our chosen disciplines. Galfar will also be able to take advantage of the Company's vast resource base and infrastructure as a result of this.

Quality, Health, Safety and Environment

Galfar consistently maintains a competitive edge through its Management System certifications in compliance with International Standards ISO 9001: 2015 & ISO/TS 29001:2010 for Quality Management System, ISO 45001 for Occupational Health & Safety Management System and ISO 14001:2015 for Environment Management System, which has given Galfar a distinctive recognition in the Industry.

Galfar's HSE performance for the year 2021 have been impressive with Lost Time Injury Frequency 0.11 against the set limit of 0.18 and Motor vehicle incident Frequency of 1.78 against the set limit of 2.20, despite critical activities and high road exposure of 47.22 million-man hours worked and 50.43 million kilometers driven and other challenges due to pandemic we have faced in our work environment.

The year 2021 remained very challenging due to spread of COVID-19 infection variants. However, with vigilant proactive strategy and continued concerted efforts taken by the organization through awareness videos, posters, campaigns, and vigilant monitoring of our day-to-day business activities, we were successful in containing the spread of COVID-19 within our workforce.

Smart and realistic QHSE Performance Indicators are set for the year 2022 to enable continual improvement of our Business Processes. Sustainable HSE performance and Compliance with new Occupational Health & Safety Management International Standard ISO 45001:2018 during this year will imbibe new confidence in our Business Stakeholders.

Human Capital

Galfar is committed to developing its resources and maintaining its Omanization targets. Galfar aims to accomplish employee development through transparent and harmonious human capital policies, maintain a motivating work environment and retain talent. The goal is to be seen as one of the leading employers offering satisfying career opportunities and an environment that thrives with dedication, creativity and innovation.

Despite the business slowdown, Galfar continued its uncompromised commitment to employment of nationals. In 2021, Galfar recruited 260+ Omanis. With more than 3000 nationals, Galfar prides itself to be one of the largest employers of national workforce in the private sector.

Galfar outlook for 2022

Galfar is optimistic about 2022, especially because the company continues to have a large order book of contracts in hand, totaling more than RO 400 million. The focus is on achieving a positive return from this order book through the implementation of several strategic objectives in the transformation strategy, which will improve the company's financial situation as well as further strengthen it by gaining new contracts for each business unit.

Risks

Risks remain an integral part of the construction business in the region. With the economic implications of the ongoing Covid-19 pandemic still looming large, the construction industry is at risk of greater capital costs and increasingly difficult access to working capital in the future.

To mitigate this the company has put in a comprehensive risk management structure and it is getting evolved

across all the units. This will enable a systematic and structured approach of aligning the risk management

initiative with our strategic and operational objectives, helping manage uncertainty more effectively, minimise

threats / surprises and maximise opportunities.

Galfar has a strong confirmed order book paired with a positive business development pipeline. Our resource mobilization capabilities continue to be our major strength. The equipment spread available within Galfar remains unparalleled in the local market.

Our gratitude and commitment

We acknowledge the contributions made by the team Galfar and thank all its stakeholders, customers, shareholders, suppliers, bankers, business partners/associates, financial institutions and the Government of Sultanate of Oman for their consistent support and encouragement to the Company. Given our restructuring program and optimization of processes, we are determined to raise the bar and set new benchmarks in the industry.

We pledge our support to the various Government initiatives and the Oman 2040 vision under the wise leadership of His Majesty Sultan Haitham bin Tariq.

Dr. Hamoud Rashid Al Tobi

Chief Executive Officer
