

However, uncertainty about government infrastructure spending remains, writes Mark Allix

Construction industry is back in the black

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SA's largest construction and engineering firms are back in the black after years of earnings declines and losses. But before the industry pops the champagne, insiders say much still needs to be done about the state's spending capacity.

Listed titans Murray & Roberts, Wilson Bayly Holmes-Ovcon (WBHO), and Group Five have all shown marked improvements in revenue and profit in their interim results to December.

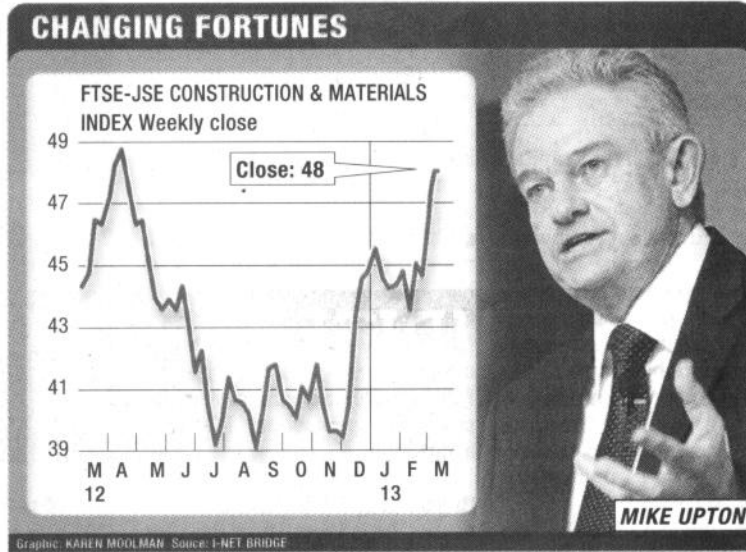
In a recent trading statement, Aveng says it anticipates that headline earnings per share for the period will be 40%-50% higher than in the same period last year.

Tender activity is seen to be increasing, both domestically and elsewhere in Africa.

Companies say conditions continue to be tough and margins remain squeezed, while substantial state spending on domestic infrastructure is missing.

"The numbers are weighted by some big spends on large projects that make it look better than it is," Group Five CEO Mike Upton says, adding that projects implemented some years back account for much of this. These include the new Eskom power stations and their capital equipment costs, and also water projects.

But general government spending is slack, with some exceptions,



he says. This has put pressure on jobs in the industry, which has seen about 100,000 workers laid off in past years.

While SA's renewable energy programme is up and running, Mr Upton says decisions on nuclear energy or more coal-fired power stations needed to cover base-load consumption are long overdue. "That can't be filled by renewables — renewables are not base load."

The 2013 budget review estimates spending of R642bn on infrastructure projects over the past three years — way below the R846bn planned spending in the

period. It is candid in stating that with R827bn of spending in the new medium-term expenditure framework, "weaknesses in planning and capacity continue to delay implementation of some projects".

But the government says steps are being taken to address these problems. It is improving capacity to plan, procure, manage and monitor projects, and says it is working more closely with the private sector at various stages of the project development cycle.

National accounts estimates show that public- and private-sector capital spending increased in

real terms by 4.3% and 4.6% respectively in 2011, and 11.1% and 4.3% in the first three quarters of last year.

However, as a percentage of gross domestic product, capital spending has not yet recovered to levels reached in 2008, before the global recession.

Over the next three years, the fiscus and state-owned companies plan to spend R827bn on infrastructure. Finance Minister Pravin Gordhan says the financing for these projects is in place, and is not affected by budget cuts.

Half will go to building schools, hospitals, clinics, dams, and water and electricity networks. It means electrification of more than a million new homes, the building of sanitation works, and improved bus, rail and road links.

Eskom, Transnet and other state-owned entities will fund another R400bn of projects.

Llewellyn Lewis, principal consultant of BMI Building Research Strategy Consulting Unit, which tracks building and construction spend, says building and construction makes up just more than 50% of total gross fixed capital formation (GFCF) in SA. "At R348bn (in annual investment last year) this is a large industry, which has momentum — it has critical mass and it has a future," he says. This includes costs for machinery,

transfer costs, transport, and computers and related spending.

Mr Lewis says GFCF in construction is growing: "In fact it has not stopped growing since 2002 — although at decreasing growth levels since 2008, but off a high base."

He also says turnover of SA's top six construction and engineering companies is about R130bn, of which 40% comes from cross-border activities.

WBHO says it is "difficult" to forecast how quickly government's infrastructure projects will get to market. It says it is not seeing "floods" of work from parastatals, and projects from state-owned companies only make up about 11% of R12bn in total group revenue.

The group says margin pressure is reducing and showing small improvements in specific areas and disciplines, but competition domestically remains intense.

Yesterday, Public Works Minister Thulas Nxesi issued a statement saying he was "rebuilding" his department and would "intensify" the struggle against corruption.

"Collusion and corruption are endemic within some elements of the Department of Public Works and certain sections of the property and construction industry," he said. "It is not enough to lament. It cannot be business as usual."

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