

CONSTRUCTION

Bump in the Road

Botched Melbourne roads project weighs on WBHO

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A botched roads project in Melbourne, Australia, saw operating profit at Wilson Bayley Holmes-Ovcon (WBHO) nose-dive from R510-million for the six months to the end of December 2017 to R3-million for the same period last year.

The Western Roads Upgrade (WRU) design and construct project comprises the widening of roads and upgrades to various intersections in suburban Melbourne.

WBHO Infrastructure is the lead contractor responsible for the delivery of the project to the concession company.

The main reason behind the loss relates to the interpretation of the project's technical specification, explains WBHO CEO **Louwtjie Nel**. This interpretation resulted in the underestimation of the physical work required to meet the output specifications of the contract.

"We discovered the problem on February 4," says Nel. "I spent two weeks there to try to understand the extent of the problem."

Following a due diligence performed by the project delivery team, WBHO made provision for a loss of \$50-million, together with a write-back of \$6.9-million in profit recognised in the 2018 financial year.

Nel is positive that these provisions will be sufficient to cover the project, which is scheduled to wrap up at the end October next year.

However, there are a number of recovery options available in both the delivery of the project and the claims.

"Significant focus is being placed on the resolution of these options," states Nel.

He adds that delivery of the project has now started, with a strong project team in place to ensure performance against the revised cost estimates included in the forecast loss. Heads have rolled over the botched project.

"You can focus on business processes as much as you like, but it often comes down to the experience and judgment of individual people," says Nel.

He says the provision for the WRU project negates otherwise solid results in WBHO.

"This could have been a very good six months for us."

The African business, including South Africa, performed well amid turbulent and lacklustre market conditions, while, in the UK, Byrne Group returned to profitability and the newly acquired Russells Limited delivered profitability, in line with



Picture by Creamer Media

LOUWTJIE NEL

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expectations.

WBHO reported an increase in revenue from R18.1-billion to R20.1-billion, owing largely to the first time consolidation of the UK businesses.

The group's total order book reached R50.1-billion on December 31, up 1.9% from June 30, 2018.

South African Concerns

WBHO said in its financial results that continued uncertainty in South Africa's political and business environment had had "a devastating effect on the local construction industry, particularly over the last 12 months, where the sector has faced severe challenges".

Lower levels of private investment, combined with little meaningful public infrastructure spending, have seen increased competition and eroded margins.

The failure of various midtier contractors, together with financial distress in a number of large listed companies, have had "profound consequences that have extended into the subcontractor market, resulting in significant job losses for the South African workforce".

Nel says it is "really scary" to see how many subcontractors have closed their doors, and to witness the number of highly skilled people leaving the country for Australia or New Zealand.

"Around 50% of our South African order book normally comes from public works. It is currently at 21%."

However, a change in political leadership appears to be making inroads in providing some stability for markets, boosting investor confidence. But the structural issues that have emerged in State-owned entities, as well as excessive levels of debt, are likely to constrain South Africa's finances over the short term, and "this at a time when public infrastructure spending should be a priority". ■