



2020 Sector Report: Construction

Introduction

The JSE lists 17 companies in the Construction & Materials sector. There are five construction companies included in this report: namely WBHO, Aveng, Murray & Roberts, Pretoria Portland Cement (PPC) and Group Five. This sample constituted 30% of the JSE listed companies under construction. However, on 11 March 2019, the board of Group Five adopted a resolution to commence business rescue proceedings. The company did not publish a set of 2019 financial statements and therefore this report does not have include Group Five results for the 2019 financial year.

Revenue

As evident from Group Five's delisting from the Johannesburg Stock Exchange and its current business rescue, the construction sector in South Africa is struggling. WBHO, maintained its positive trend in increasing revenue comfortably reporting a 15% change from R35 million to R40 million in 2019. The remaining companies' performance was not as favourable with PPC reporting a meagre 1% increase in revenue. Aveng and Murray & Roberts reported decreases in revenue

with Aveng decreasing from R30 million in 2018 to 25 million in 2019, 16%, and 7% for Murray and Roberts.

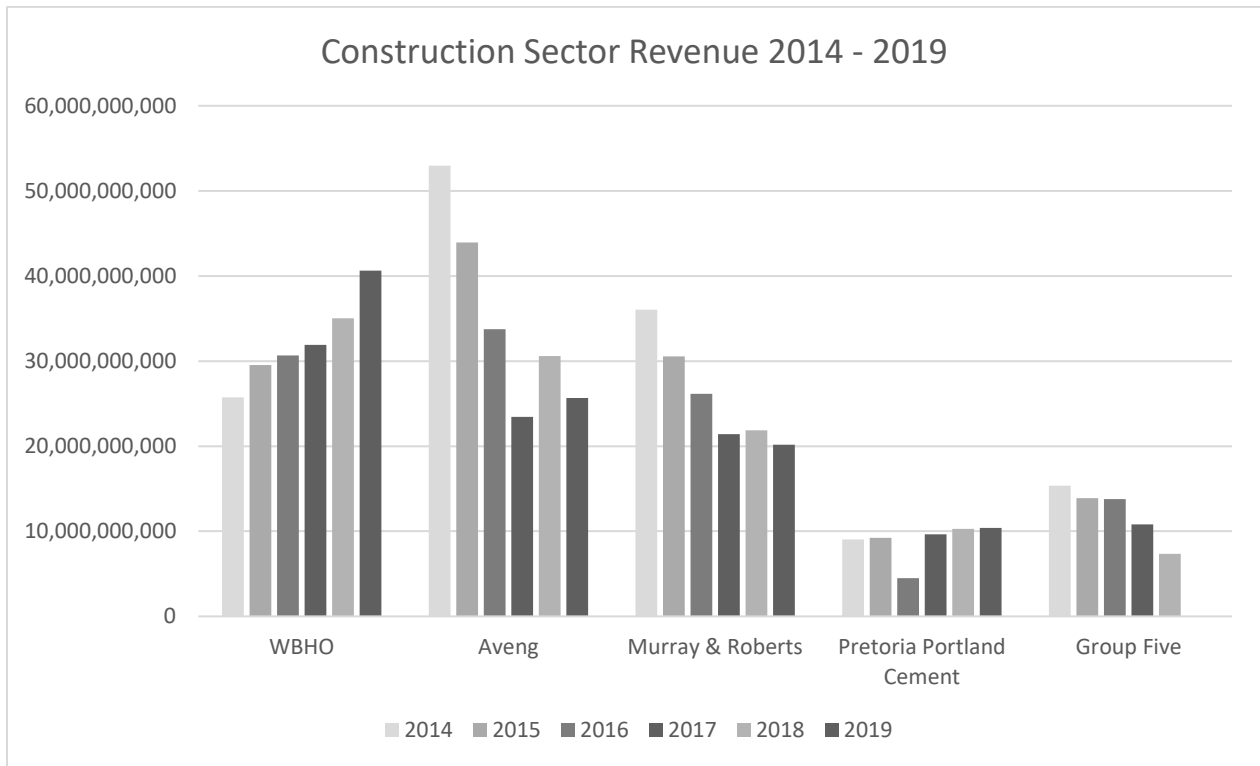


Figure 1: Construction sector revenue for the years 2014-2019. Data from company annual financial statements.

The average revenue percentage changes was a decrease of 1% for the sector despite an overall average revenue increase generated by sector from R21 million to R25 million in 2019.

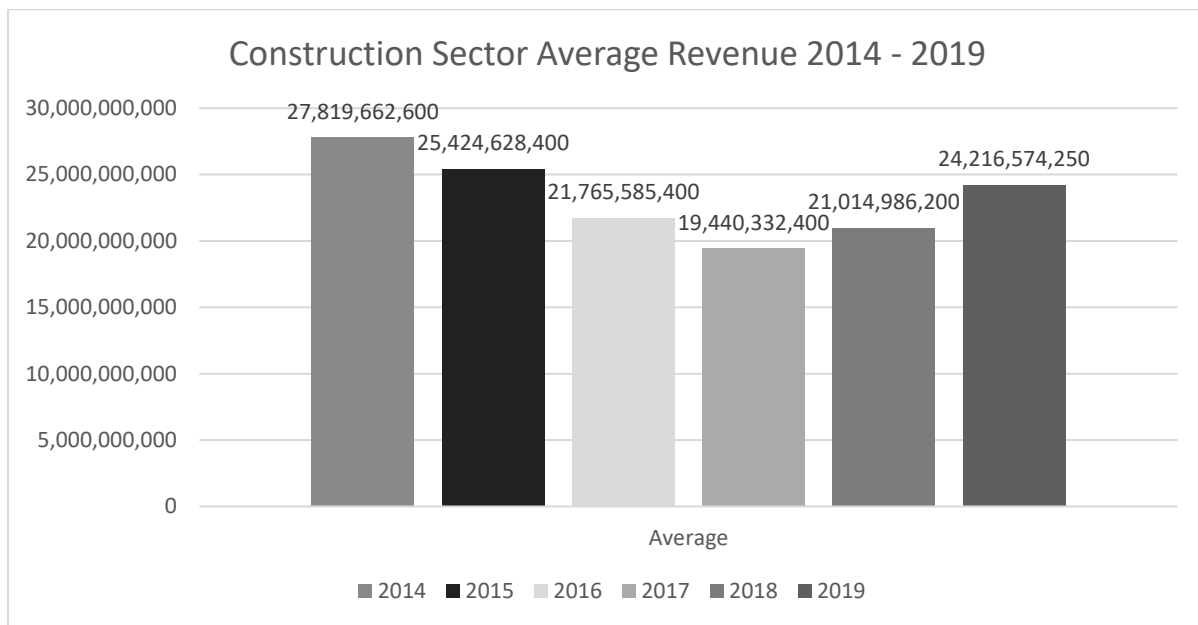


Figure 2: Construction Sector Average Revenue 2014-2019. Data from company annual financial statements.

Profit before Tax

WBHO and Murray and Roberts maintained their positions as the sector leads in terms of profitability. Despite WBHO remaining at the head of the pack, its profit decreased significantly by 34% from R1.1 billion in 2018 to R784 million in 2019 whilst Murray and Roberts decreased its profit by 10%. PPC continues to maintain a positive profit but it is struggling after reporting a 38% decrease, the highest in the sector.

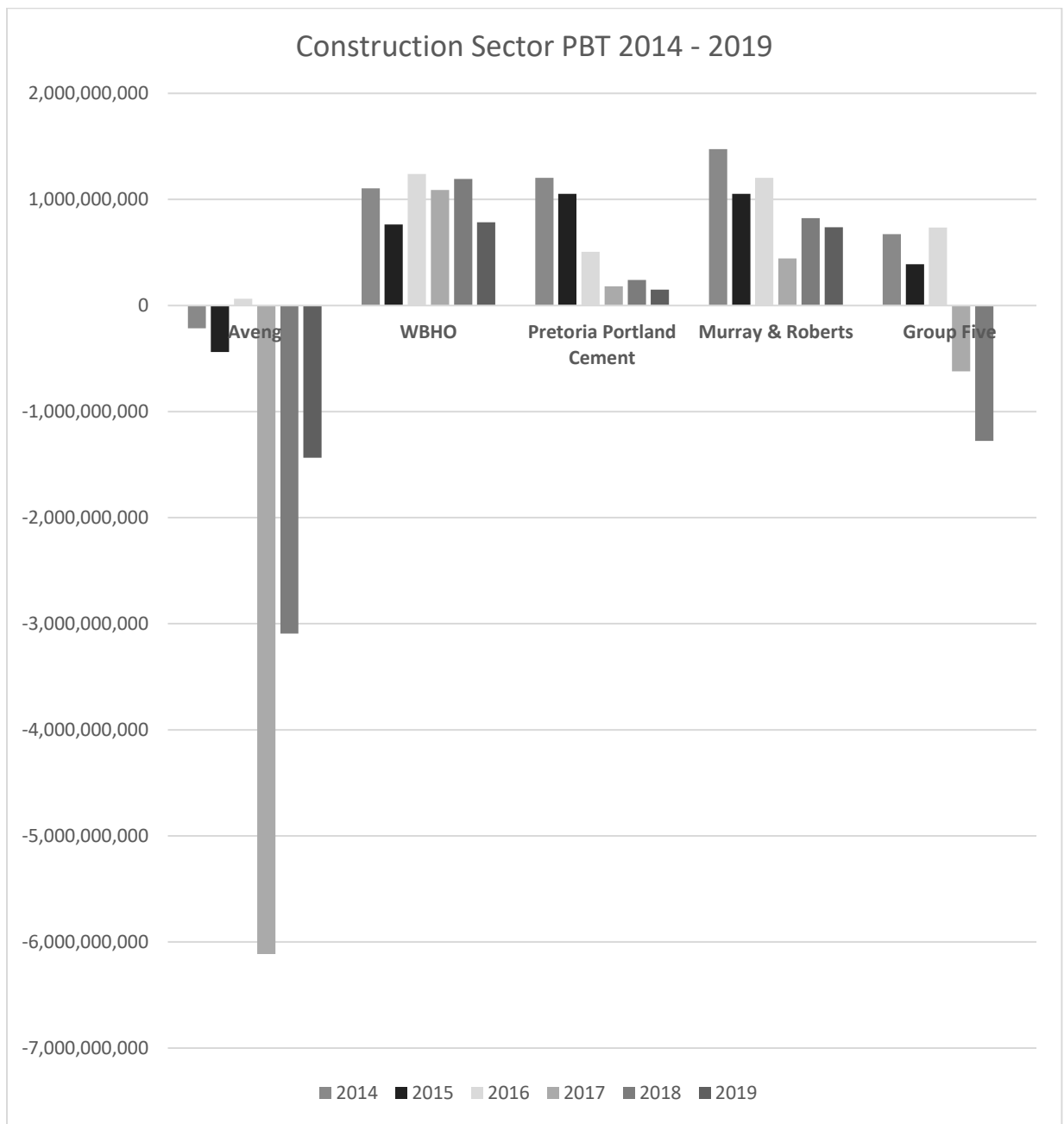


Figure 3: Construction Sector Profit before tax 2014-2019. Data from company annual financial statements

Aveng and Group Five have historically had a significant impact on the sector’s average profit. In the 2019 financial year, Aveng reduced its losses by more than 50% from R3 billion in 2018 to a loss of R1,4 billion in 2019. As evident in the graph below, the impact of Group Five’s delisting

from the JSE has also contributed to an overall positive sector profit average increasing by 86% from –R422 million to R59 million in 2019.

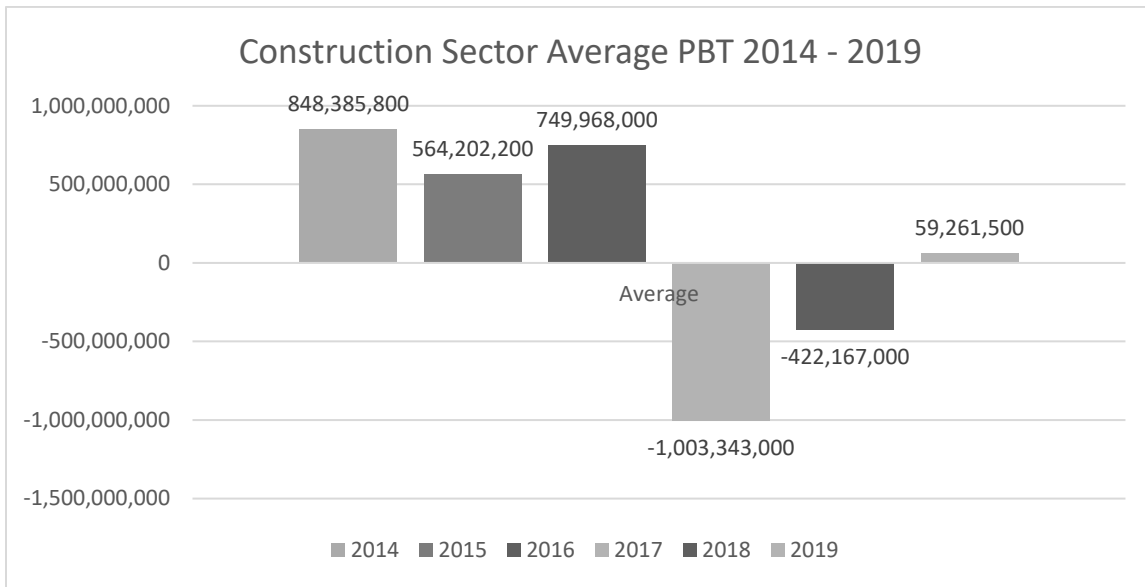
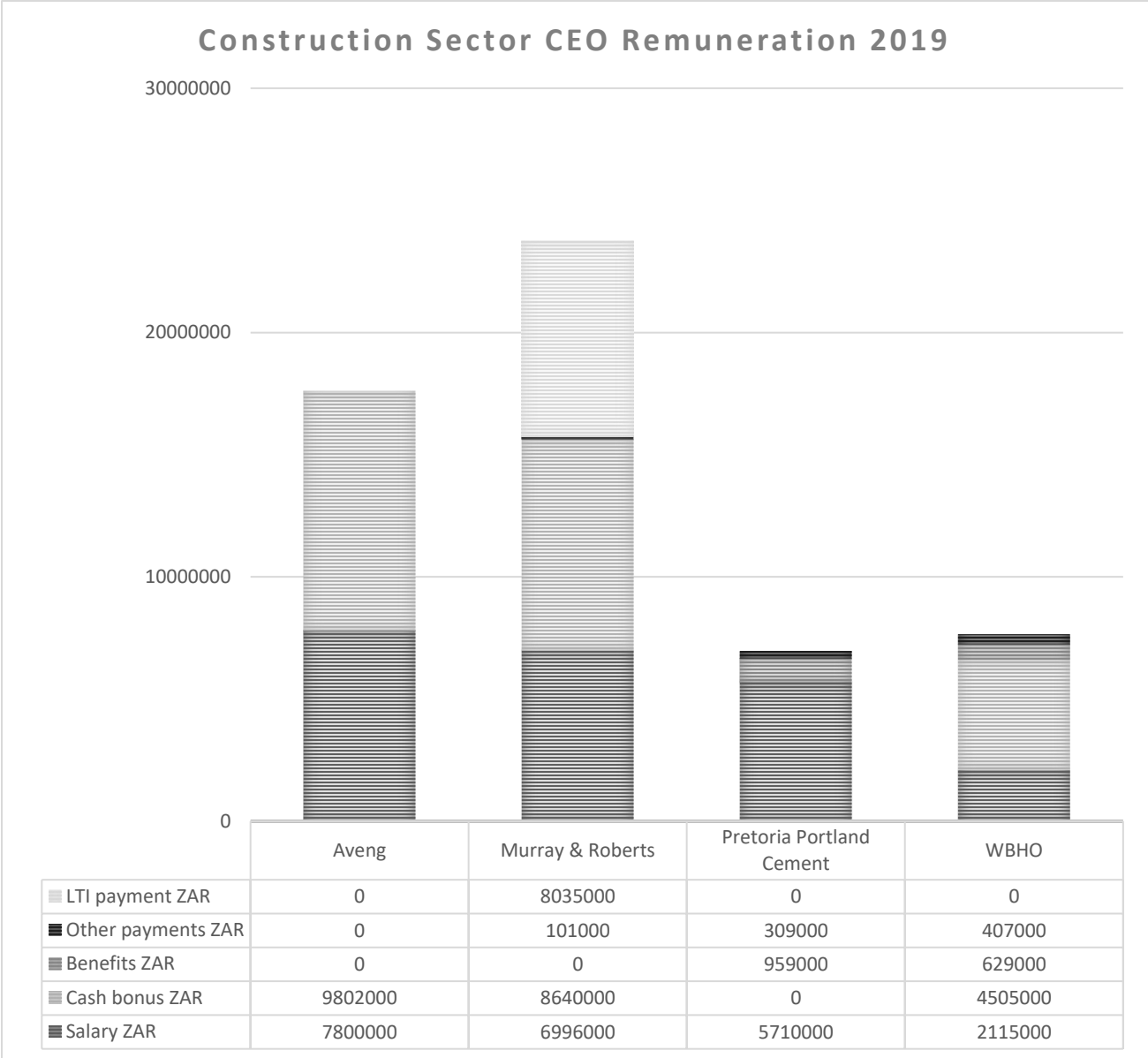


Figure 4: Construction Sector Average Profit before tax 2014-2019. Data from company annual financial statements.

Directors' Remuneration

Murray and Roberts continued to have the highest CEO single figure remuneration with Henry Lass receiving R23,7 million for the 2019 financial year. There was only one LTI payment to CEOs in the construction sector, and that was to Murray and Robert's Lass.

On average, executive directors' salaries in the 2019 year increased by 10% from R3.4 million per year to R3.8 million whilst total remuneration for the 11 directors in the sector decreased by 5% because of fewer benefits paid by Aveng and Murray & Roberts. Non-executive directors' (NED) remuneration increased by 18% from R793 thousand to R943 thousand annually for the 28 non-execs.



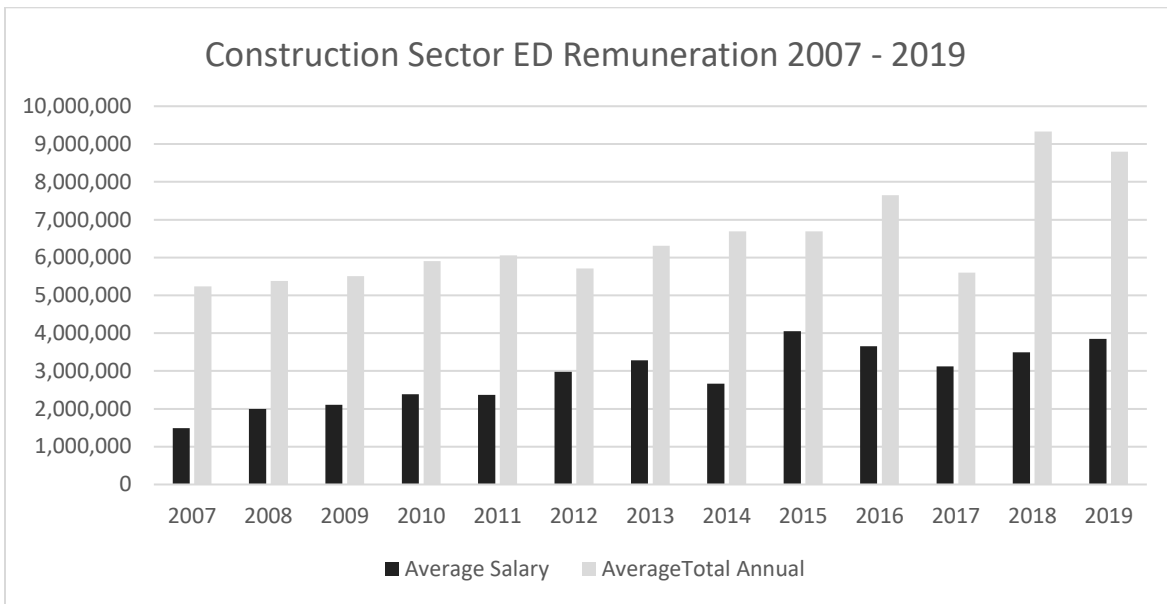


Figure 6: Construction Sector Executive Directors (ED) 2019 Remuneration

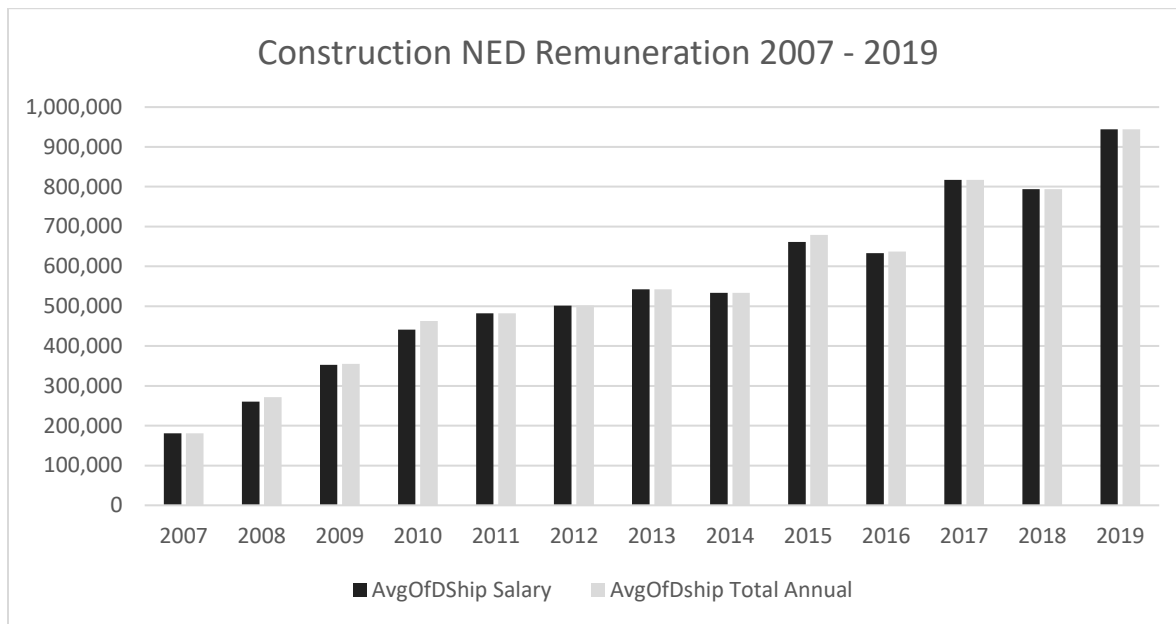


Figure 7: Construction Sector Non-executive directors 2019 Remuneration.

Conclusion

The construction sector continues to report weak economic performance and has been under an environment of increased retrenchments, liquidations and discontinuing of operations. Group Five delisted from the JSE and is undergoing business rescue, whilst Murray and Roberts is possibly undergoing a group restructuring¹ after it was acquired by a consortium led by Southern Group Palace Group of Companies². This suggest a trend of more construction companies cutting back on workers or closing operations.

¹ Concor, "Change of ownership and company name". <https://www.concor.co.za/change-ownership-company-name/>

² Engineering news, "Southern Palace Group-Led Consortium Acquires Murray & Roberts Infrastructure & Building Businesses". https://www.engineeringnews.co.za/article/southern-palace-group-led-consortium-acquires-murray-roberts-infrastructure-building-businesses-2016-11-01/rep_id:4136