

NOVEMBER
2021

CONSTRUCTION SECTOR REPORT 2021

LRS Labour
Research
Service

**FRIEDRICH
EBERT
STIFTUNG**
TRADE UNION COMPETENCE CENTRE
SUB-SAHARAN AFRICA

DR SALOMÉ TEUTEBERG

Contents

Introduction 2
The Sector 2
Financials..... 3
Revenue 3
Profit before Tax 7
Directors' Remuneration: a ten year retrospective..... 9
CEO Remuneration 2020..... 10

List of Figures

Figure 1 Construction Sector Revenue 2020 4
Figure 2 Construction Sector Revenue 2012 to 2020 5
Figure 3 Construction Sector Average Revenue 2012 to 2020..... 6
Figure 4 Construction Sector PBT 2020 7
Figure 5 Construction Sector PBT 2014 - 2020 8
Figure 6 Construction Sector Average PBT 2014 - 2020 9
Figure 7 Construction Sector CEO Remuneration 2011 to 2020 10
Figure 8 Construction Sector CEO Remuneration 2020 11
Figure 9 Construction Sector Average Executive Director Remuneration 2007 to 2020 12
Figure 10 Construction Sector NED Average Total Annual Remuneration 2011 to 2020 12

Introduction

The JSE lists 17 companies in the Construction & Materials sector. There are five construction companies included in this report. 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 or 2020 financial statements and therefore this report does not have include Group Five results for the those financial years.

WBHO

Aveng

Murray & Roberts

PPC

Group Five

The rich data extracted from the LRS's [MNC Database](#) enables a retrospective view of company performance over the course of the last seven years. Following this, we analyse the remuneration packages received by directors in this sector.

The Sector

Over the course of the last year and a half, COVID-19 has caused a significant slowdown in world trade and disrupted global supply chains. In addition to these disruptions, South Africa's national lockdowns over the course of 2020 and 2021 have severely impacted businesses.

According to Aon South Africa's Construction & Engineering Broking Centre, Government is the biggest spender on infrastructure in SA's construction industry. The centre reports that along with national lockdowns in South Africa, 'government diverted infrastructure spending to alleviate the economic and social crisis facing the country, cutting traditional expenditure by 80%. This brought a large portion of the country's economy, including the construction industry, to a grinding halt. At the same time, restrictions on construction activity under lockdown regulations

added further pain. Projects were left standing, deadlines were missed – the consequences of which are enormous.’¹

The same report lists some worrying trends in the construction industry, including issues with supply which results in issues with pricing; the Rand’s declining value against USD; and skills shortages². This was echoed by PPC’s MD, Njombo Lekula, who said that skills retention and transfer are two of the many problems the industry is hoping to resolve.

However, some research studies³ estimate growth in the next few years for the industry, partially due to government’s plans to spend significantly on infrastructure development over the course of the next few years.⁴ Between 2022 and 2025, South Africa’s construction industry ‘is expected to experience an average yearly growth of 3.4%, as the government increases its focus on infrastructure and energy sector investment initiatives.’⁵

Financials

Revenue

On average, this list of companies reported a 2% decrease in revenue in what could be termed one of the most difficult years in construction (however, some companies’ 2020 financial year end did come before the worst of the pandemic could be felt, and these effects will be more easily seen in 2021 financials). Aveng reported a 19% drop in revenue, and Pretoria Portland cement reported a 2% decrease. WBHO and Murray & Robert reported a 6% and 3% increase in revenue respectively.

¹ <https://aon.co.za/insights/construction-sector-is-critical-to-sa-s-post-covid-economic-recovery/>

² <https://www.news24.com/fin24/companies/ppc-warns-of-looming-skills-shortage-in-sa-construction-industry-20210729>

³ <https://www.businesswire.com/news/home/20210423005326/en/South-Africa-Construction-Market-2021-2025-Key-Trends-and-Opportunities-Post-COVID-19---ResearchAndMarkets.com>

⁴ <https://iclg.com/alb/17074-south-africa-set-for-construction-sector-revival>

⁵ <https://iclg.com/alb/17074-south-africa-set-for-construction-sector-revival>

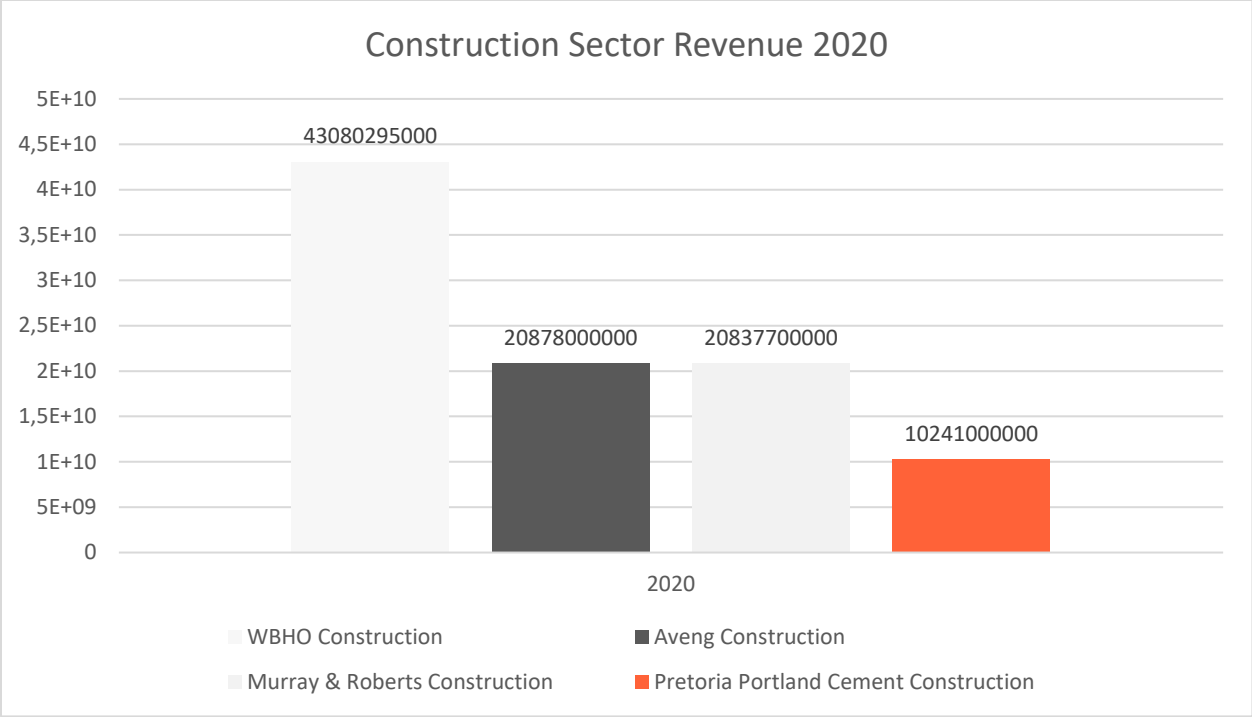


Figure 1 Construction Sector Revenue 2020

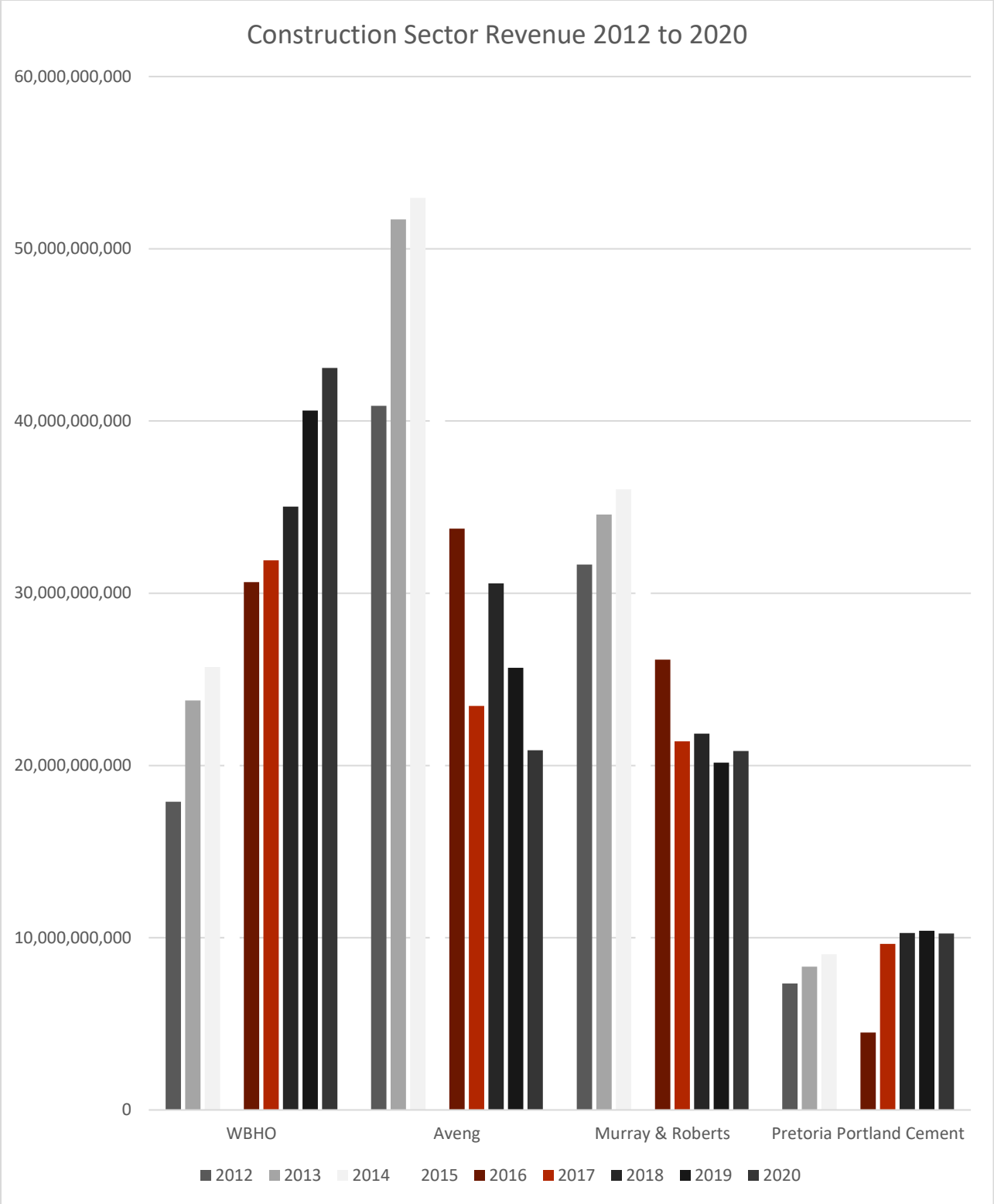


Figure 2 Construction Sector Revenue 2012 to 2020

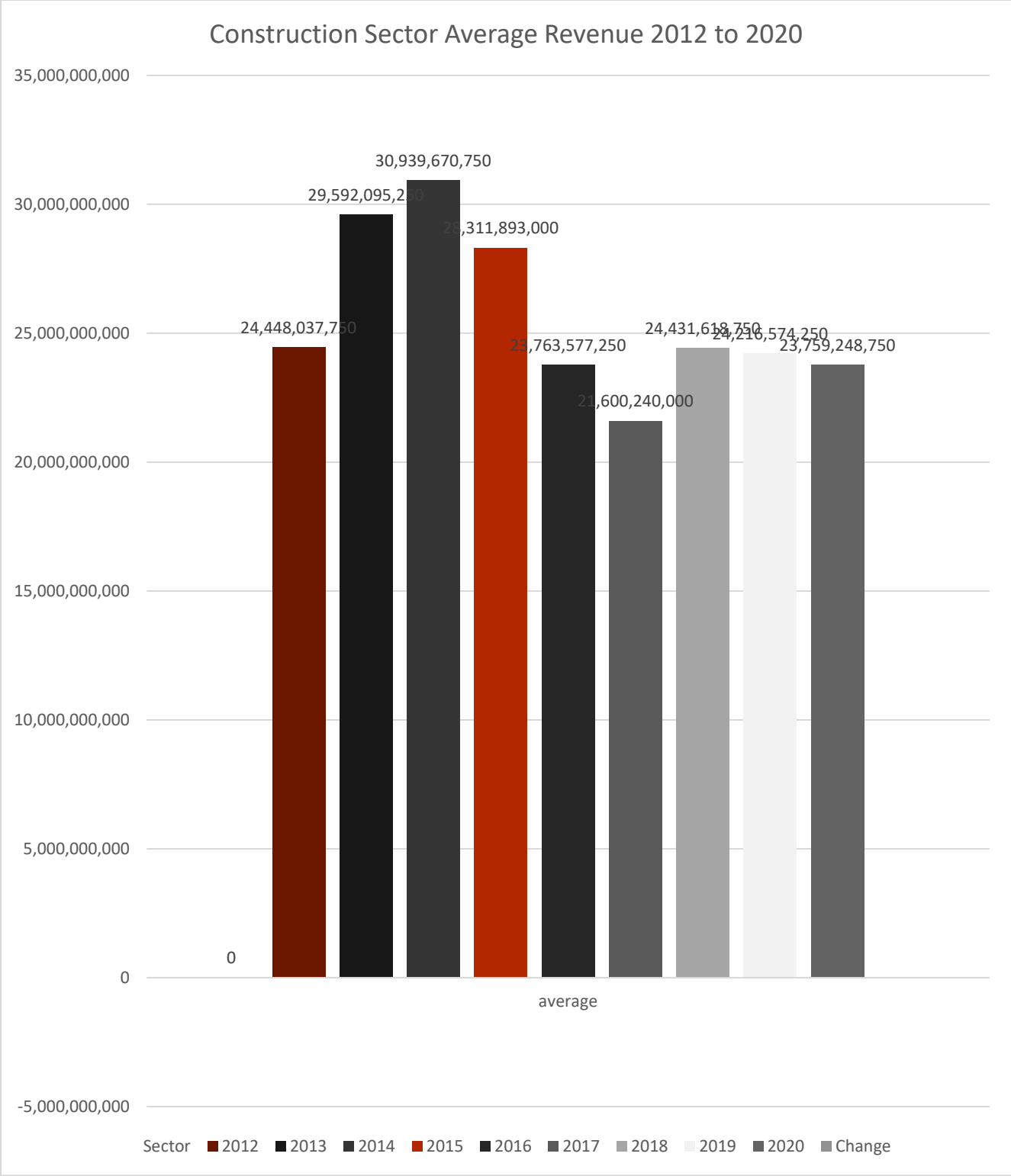


Figure 3 Construction Sector Average Revenue 2012 to 2020

Profit before Tax

When reporting Profit before Tax, all four companies in the sample reported large losses, in line trends in the Construction sector as outlined above. WBHO, the biggest company in the sample, reported a downturn in PBT of over 140% from a PBT of almost ZAR 800 million in 2019 to a loss of over ZAR 300 million in 2020. Pretoria Portland Cement reported a substantial loss of over ZAR 2 billion, and faced an uncertain future. However, in September 2021 the company announced improvements in what had been a significant debt burden caused by borrowing money to expand into Africa.⁶

Murray & Roberts reported a loss of over ZAR 200 million, a 132% decrease in PBT; while Aveng reported a loss of over ZAR 1 billion (compared to a loss of ZAR 1,4 billion in 2019).

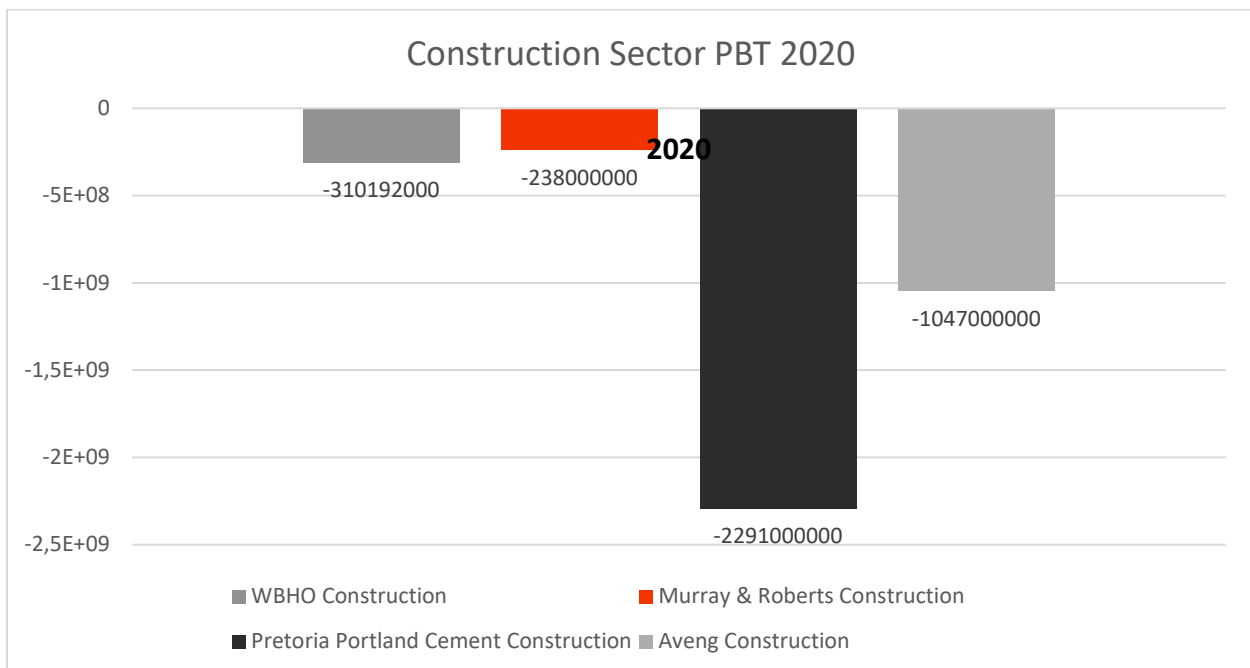


Figure 4 Construction Sector PBT 2020

⁶ <https://www.news24.com/fin24/companies/interview-ppc-is-back-from-the-debt-20210929>

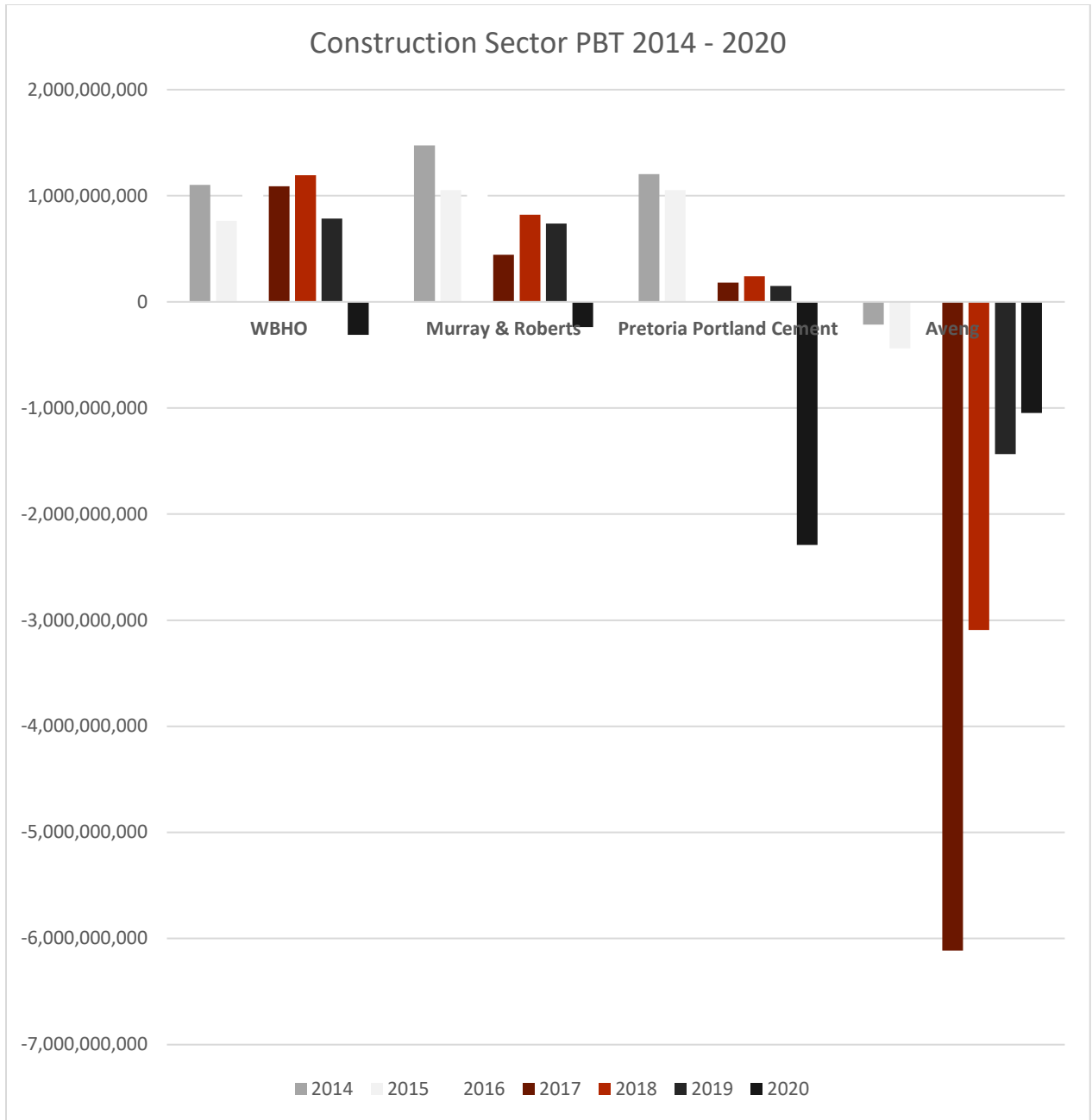


Figure 5 Construction Sector PBT 2014 - 2020

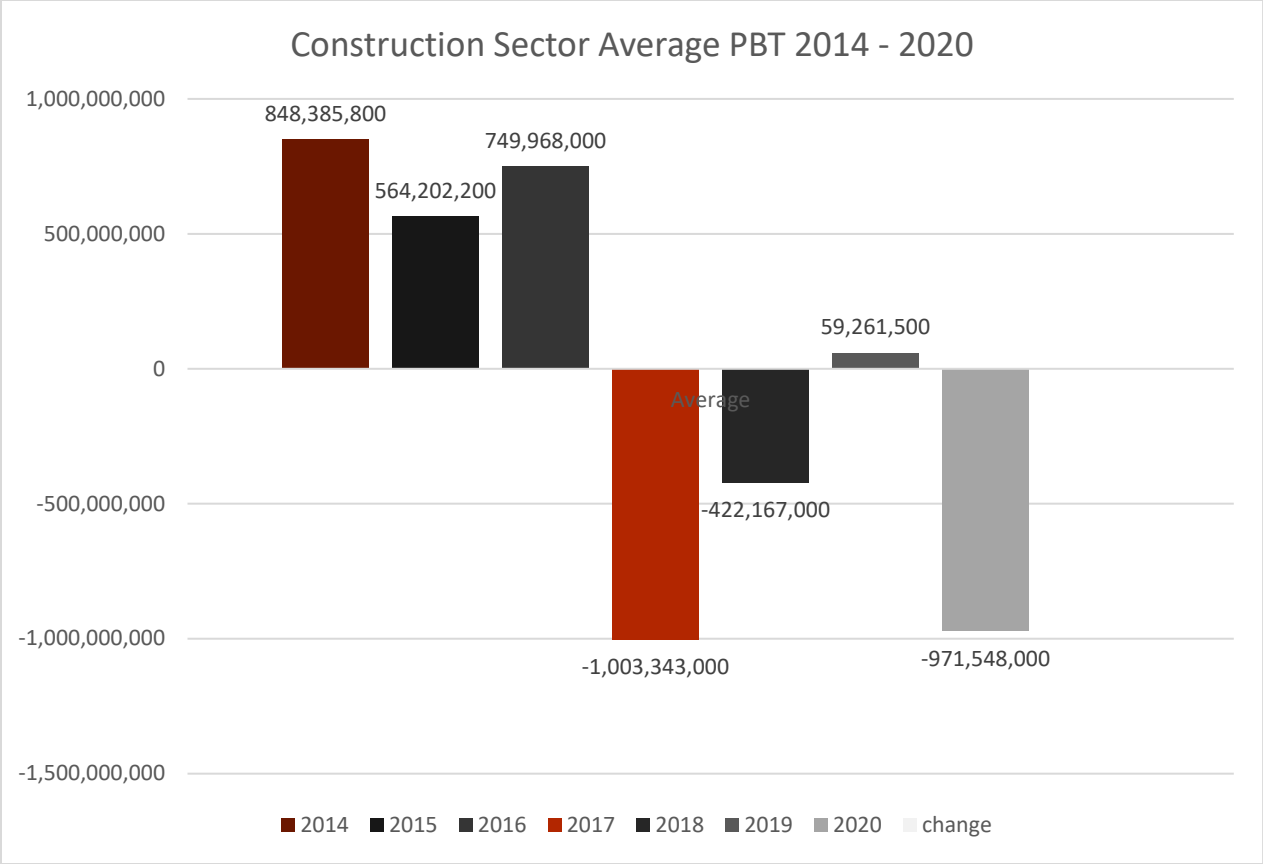


Figure 6 Construction Sector Average PBT 2014 - 2020

Directors' Remuneration: a ten year retrospective

The LRS MNC database allows us to look at CEO remuneration over the course of the last ten years. In the construction sector, and our sample specifically, we see an erratic trend with relatively low LTIs. In 2020, only two CEOs received LTIs of comparatively small amounts. Neff of WBHO received an LTI of ZAR 1,2 million and the PPC CEO received an LTI of about ZAR 1,7 million. This partially reflects the tumultuous nature of the sector over the course of the last 10 years. From 2019 to 2020, average CEO remuneration went down by just over 17%.

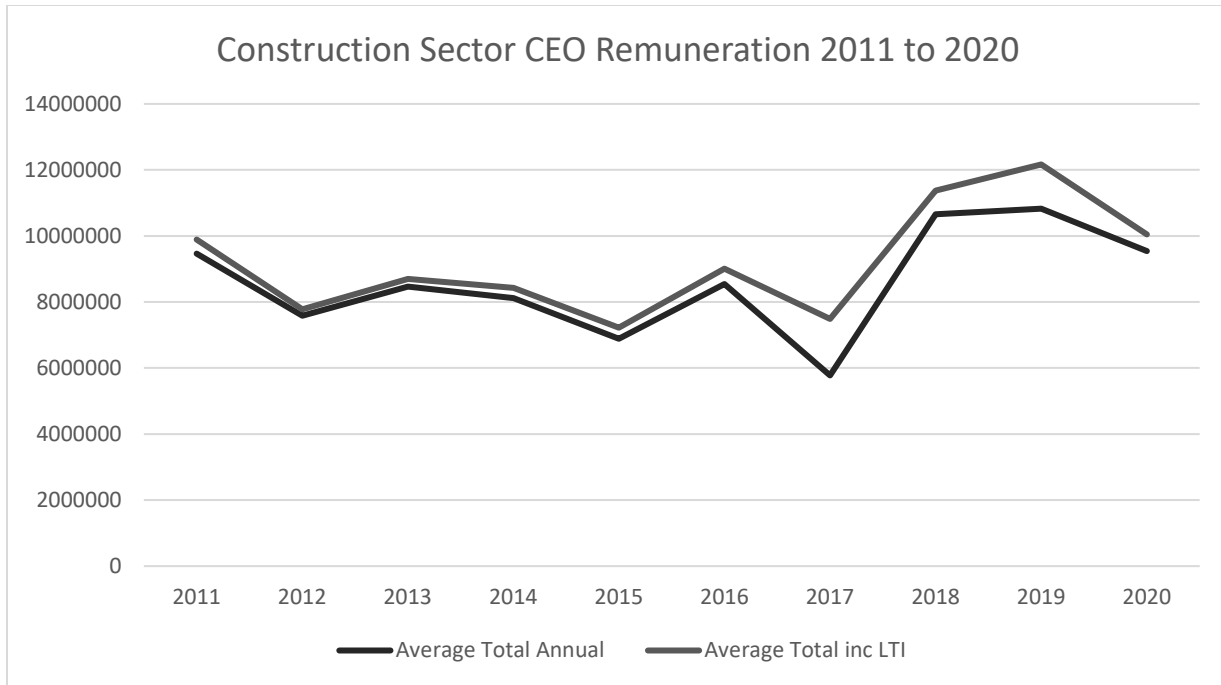


Figure 7 Construction Sector CEO Remuneration 2011 to 2020

CEO Remuneration 2020

In our sample of the construction sector, Murray & Roberts CEO Henry Laas received the highest remuneration for the 2020 financial year. He has been CEO since 2011. His remuneration is mainly made up of a large salary of ZAR 18,5 million. In his time as interim CEO, PPC CEO Claassen receive the second highest remuneration in the sample, which included an LTI of ZAR 1,7 million.

On average, executive director remuneration in the sample went down by 17,5% from 2019 to 2020, reflective of the losses made in the sector. Non-executive director remuneration went down by 12,6% in the same period. The small spike witnesses in 2019 (see figure below) reflects the exit of Group Five from the JSE and from our sample.

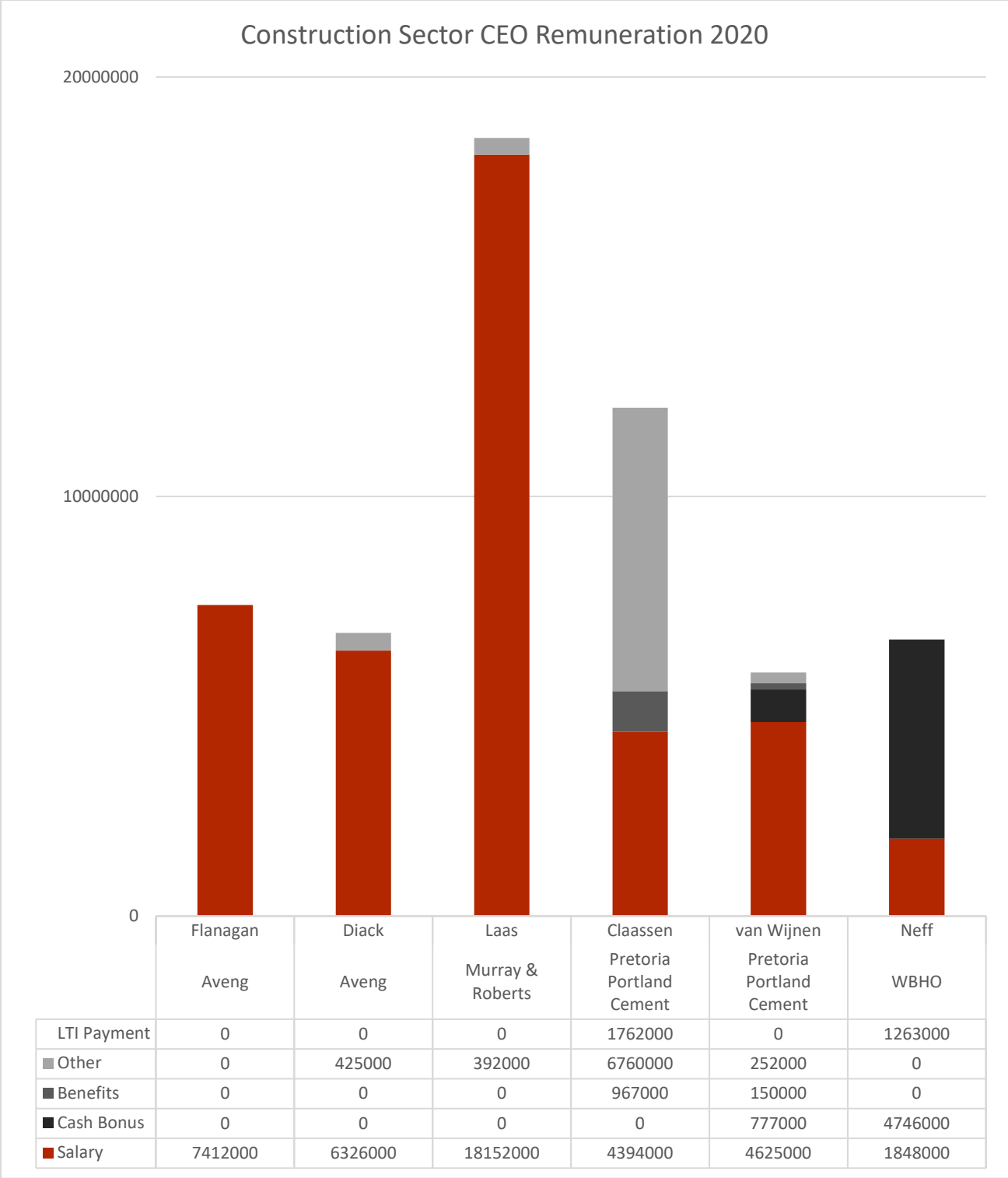


Figure 8 Construction Sector CEO Remuneration 2020

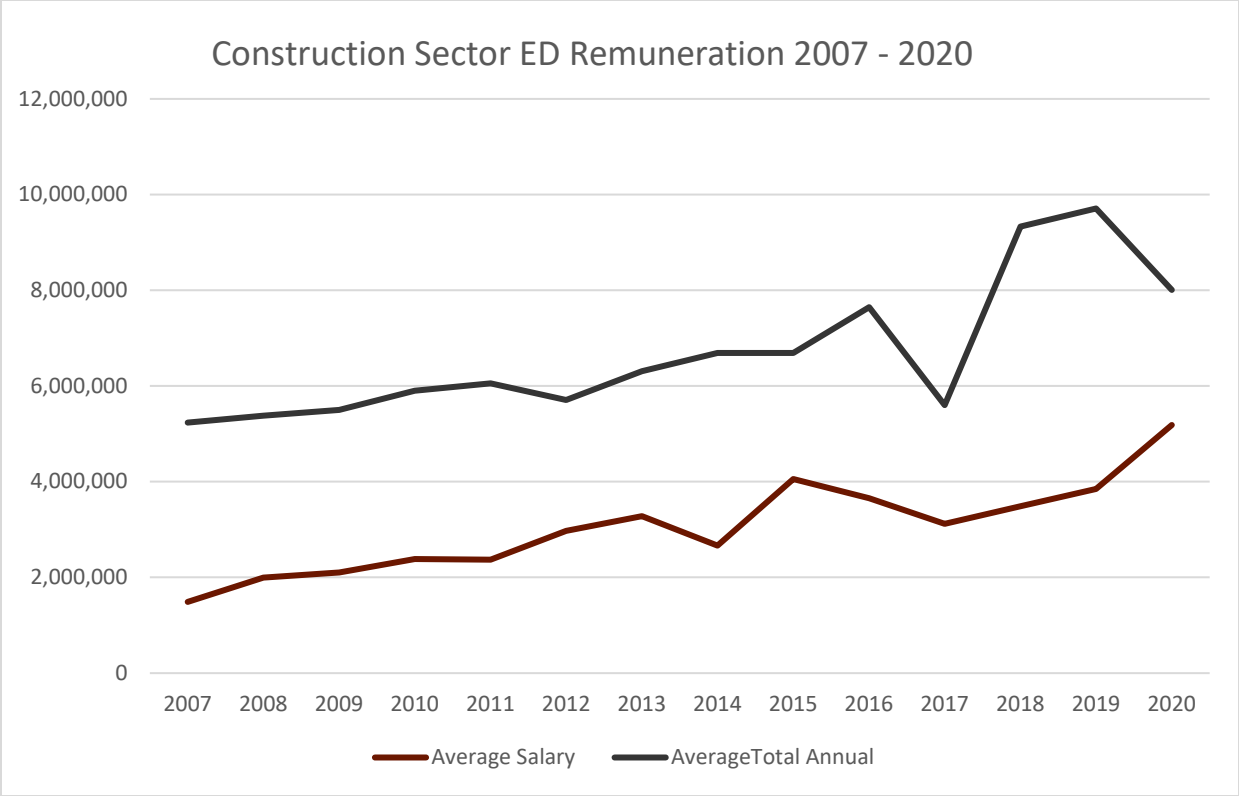


Figure 9 Construction Sector Average Executive Director Remuneration 2007 to 2020

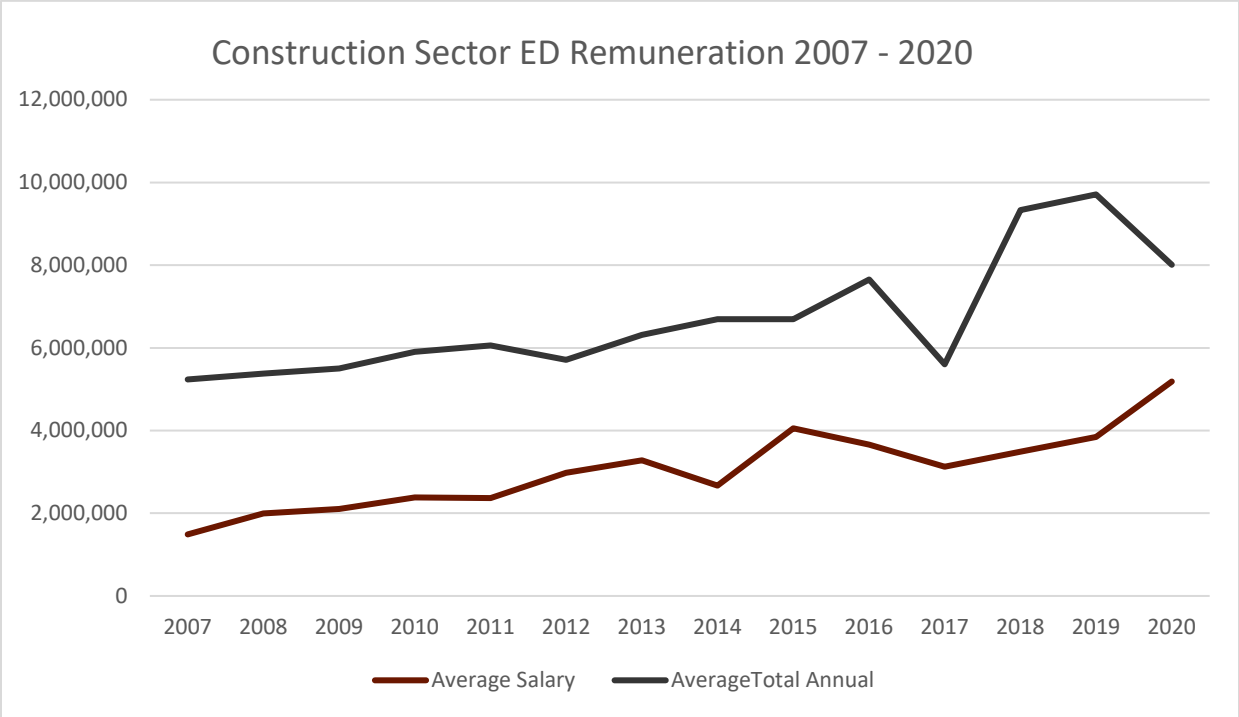


Figure 10 Construction Sector NED Average Total Annual Remuneration 2011 to 2020