BIZCOMMUNITY

Infrastructure plans: Group Five 'confident'

By Alistair Anderson

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JSE-listed construction company Group Five is confident it can benefit from the government's infrastructure roll-out, which is expected to kick into gear next year.

Chief executive Mike Upton said at a media briefing on Wednesday (28 November) that even though the state had been "very slow" in getting projects to market, Group Five had been cautious and timed itself to be able to act when projects became available.

"We have endorsed the National Development Plan and the infrastructure roll-out plan. The infrastructure plan may have moved slowly but we are in a better place than before when we had no plan. We believe we will be the preferred bidder for large parts of the 17 strategic infrastructure projects," he said.

He said Group Five's margins were under pressure but he expected them to improve next year.

Group Five in August released financial results for the year to June, in which it reported a 64% drop in headline earnings per share. The company suffered in disposing of its construction materials business, and problem contracts in the Middle East and India.

But the group says it remains net ungeared and has R2.3bn in cash on hand, marginally up from R2.2bn last year.

The multi-trillion infrastructure planis to be executed over fifteen years and has been lauded but critics are concerned that the state's recent performance in developing infrastructure will retard its success.

"Significant infrastructure investment can be a meaningful employment creator and government's planned infrastructure roll-out would boost this. However, the current track record is not as good as it should be, from funds earmarked for expenditure remaining unspent to problematic funding mechanisms, and the quality of infrastructure is not uniformly good. Greater private sector involvement will be key in meeting South Africa's ambitious infrastructure plans," Investec chief economist Annabel Bishop said.

Executive for investments and concessions, Eric Vemer said he believed Group Five's decision to hold back from projects which did not meet certain regulations or looked risky for other reasons during the recession, paid off for the company.

"Many smaller construction enterprises are now trying to get rid of loss-making projects. They may have gone in gung-ho and now are losing money or being liquidated. But the construction sector itself is seeing activity. It is not getting close to the highs before the soccer World Cup and will not for a long time but things are moving," he said.

Group Five's total order book at the end of October is at R16.68bn. The book comprises 27% in real estate, 23% in power projects and 20% in transport projects. Mining makes up 18%.

At the media presentation, Upton gave attention to real estate, saying private sector real estate was performing very badly.

"There is a lot going on with respect to public sector real estate which excites us," he said.

Upton and Vemer said Africa was the long term growth destination. The group's order book was made up 70% by South African projects but this would shift naturally towards those in other African countries.

"It is easier to grow outside of South Africa than it is within it. Outside the country, we do not need to employ only South Africans, and resources are not as constrained," Upton said.

Group Five is involved in road-related projects in Eastern Europe but Africa looked to be its biggest growth area in the immediate future.