Aveng woes keep mounting as CEO resigns

By Alistair Anderson

27 Sep 2017

Aveng is a company on life support, with the group reporting a crippling R6.7bn headline loss for the year to June, as well as the exit of its CEO.

The construction company's headline loss was far more severe than the R299m in the 2016 financial year. Non-cash impairments and writedowns on long-outstanding uncertified revenue of R5.9bn also battered the group's bottomline.

CEO Kobus Verster announced he would leave the group, having been at the helm since February 2014. He also resigned from the position of executive director. He said he wanted to pursue other opportunities. The CEO role will be held by executive chairman Eric Diack until a replacement is found.

Aveng's share price fell 5% after it reported a loss per share of 1,690.6c in its financial results for the year to June. This was a staggering collapse compared with the loss per share of 25.4c at the end of a June a year before.

The Aveng share price has lost nearly 90% of its value over a five-year period. It closed 5.45% lower at R3.12 on Tuesday, 26 September. Many fund managers and other members of the investment community have written Aveng off as a penny stock that has little to offer as an investment.

"I prefer operating companies rather than zombie stocks," Keith McLachlan, portfolio manager at AlphaWealth, said.

Diack said Aveng still had a lot to offer investors. "We spent a year building up our order book. We are not chasing work now and we have a base to work with.

"It should take six to 12 months to bring in the right person to be the next CEO and have a new very skilled management team in Australia. If we stick to our plans, we should be okay," he said.

The group splits itself into six geographic regions, with its domestic market in SA having contributed 65% of revenue, followed by New Zealand, which contributed 11%; Southeast Asia 10%; the rest of Africa 7%; and Australia and the Middle East with 5% and 1%, respectively.

Management thought it necessary to impair assets because of subdued economic conditions affecting the Aveng Steel, Aveng Mozambique and Aveng Mining businesses, as well as unused assets at Aveng Grinaker-LTA. An impairment charge of R225m was recognised.

Aveng employs about 15,000 people and no layoffs were expected during the 2018 financial year, according to Diack.

He said Aveng's Grinaker LTA civil construction business had struggled tremendously because of the "nonexistent infrastructure spend" in SA.

"Construction companies are facing extreme pressure in this country. There are no major infrastructure projects.

"Instead, we are focused on five roads jobs. Our road work is largely for Sanral and it's a very competitive place. We are competing with other longestablished construction companies as well as small emerging companies," said Diack.

Aveng was also hurt by the settlement of a dispute over Australian subsidiary McConnell Dowell's payment for the Queensland Curtis liquefied natural gas pipeline project coming in R2.4bn lower than expected.

Diack said Aveng began the 2018 financial year with a more certain financial position and a stronger two-year order book of R29.9bn at the end of June, with 100% of revenue secured for 2018.

Source: Business Day