



CONSTRUCTION

David Carte | 11 November 2009 19:38

# Desperately seeking margin

In construction that's what sorts the sheep from the goats.

**JOHANNESBURG** - Having grown heps 23% in the six months to August, Stefanutti Stocks (JSE:SSK), seems to be the medium-sized construction group to follow.

It has the largest order book among companies outside the Big Five (Basil Read, Group Five, WBHO, Aveng and M&R). Its first half heps outstripped those of the other fast-growing mid-sized group, Raubex.

But it has half the market cap of Raubex. Indeed, while the company has grown revenue in leaps to R4bn in the six months to August, its market cap has made little progress since it listed in 2007 with a market cap of R1.7bn to R2bn now. In the interim it acquired Stocks to legitimately claim, as it does to be a Tier One construction stock.

The share price once cracked R25 before the Stocks acquisition. Then it fell to a low of R6.05 before ambling slowly upwards these past nine months to the present R10.90.

Founder and Chairman Gino Stefanutti, tracked down to a site in Swaziland, admitted that it is in building and civils that margins are slimmest.

"Our rivals have a greater exposure to pre-mix, roads and road re-surfacing. Stefannuti told me his company is driving hard into all the better-margin areas.

From the table below one can see that Raubex grew turnover by only 1.8% - but it reported an operating profit of R440m - 71% better than Stefanutti Stocks'.

Having complained about its margins, one has to admit that the company is growing strongly. Among its peers, it was surpassed in heps growth only by Esorfranki, whose geotechnical work is apparently lucrative.

With Stocks building under its belt and judging by today's interim, Stefanutti is heading for turnover of R8bn and an operating profit of R500m for the full year. That makes the market cap of R2bn look pretty miserly. Clearly the market is discounting harder times in construction.

CEO Willie Meyburgh was a little downbeat today. He told me that it is true that government work is arriving slowly notwithstanding the brave words of Finance Minister Pravin Gordhan in the t Mini-Budget. He said only Sanral seemed able to hurry up and sign. He attributed the delay largely to the credit crunch which continues to squeeze even the parastatals and government bodies.

That said, he has ambitious growth targets - operating profit of R500m this year, then to R1bn and eventually to R3bn.

To improve margins, Stefanutti Stocks is aiming at electrical distribution. It is also interested in mining services in its broadest term, taking on Fraser Alexander in slimes and dump management and reclamation and undertaking open cast mining in chrome, nickel and coal, where Meyburgh sees good future growth.

Meyburgh said the Middle East was a promising field for the company. It sees breakneck growth in Abu Dhabi, Qatar and Bahrain. Margins are better in Africa and Stefanutti Stocks has a lot of work in Swaziland, Angola, Botswana and Mozambique.

The group has a reasonable amount of commercial work even though that is a depressed area.

The strong rand is a problem, indeed it knocked R45m off profit and cash flow in the six months. Still, with R1.3bn of cash in the bank, the company is well poised to handle a lot more work.

While the JSE's new listings promoter Noah Greenhill might be a bit embarrassed by a handful of counters that came to the market in recent years, those in the construction sector have generally not disappointed. One waits with baited breath, however, for an outcome to Sea Kay's problems.

What jumps out of the table below capturing the recent results of the medium and small construction shares is the huge leap in the figures of Stefanutti - turnover up 56% and operating profit up 46%. The only company that compares is Esorfranki. Both companies' top lines benefit from the consolidation of relatively large new subsidiaries but neither was guilty of dilution at the per share level.

	Revenue Rm	% change	Op profit (Rm)	% change	Op margin (%)	Int cover	Heps change %	Mkt cap	Order book
Protech	425,8	23,7	73,9	-14,7	17,3	10,7	-12	362,5m	982m
Sanyati	1149	42	86,8 <sup>n</sup>	+32	7,5	3,9	-44,4	223,6m	1,8bn
Sea Kay*	841,4	29,5	101,1	-24,3	12,0	2,3	-63	180,9m	
Esorfranki	1018,3	76	176,3	106	17,3	11,4	+82	1,263bn	1,2bn
Afrimat	392,5	21	66,6	22	17,0	9,0	+20,8	494,2m	n/a
Raubex	2 277	1,8	440	10,6	19,3	39	10,2	4,4bn	5,2bn
Steffanutti Stocks	4 000	56	257,1	46	6,4	6,7	23	2,0bn	6,6bn

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\*Full year

^ Omits R50,2m negative "accounting change"

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