Business Report

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Stefanutti forecasts dark clouds ahead

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STEFANUTTI Stocks, the listed engineering and construction group, maintained a strong financial performance in the six months to August, but expected the next six months to be challenging because of project funding constraints and lower tender margins.

Stefanutti Stocks chief executive Willie Meyburgh said yesterday securing new contracts in the 2011 financial year was projected to be far tougher, noting that the group's business units had adopted a policy of aggressive marketing and were alert to possible acquisitions.

However, he said the group was positioned to benefit from expenditure on infrastructure and anticipated growth in the power generation and mining sectors – particularly opportunities within the municipal services environment – including waste management, sanitation and water purification.

Opportunities were also anticipated in the pipeline, rail construction and renewable energy arenas, while the group expected to participate in the next phase of the R23 billion Gauteng freeway improvement project that was due to commence in 2012.

Stefanutti Stocks

Share price, rand **Aug 3-Nov 11**

Source: Bloomberg

Public-private partnerships should present an avenue for further growth and the group would seek to expand the new power transmission and distribution divisions.

Geographic expansion also remained a focus, with an emphasis on bolstering the group's construction operations throughout Africa and in the Middle East.

Meyburgh added that with the continued downturn in economically hard-hit Dubai, the group had established itself in Abu Dhabi and Bahrain and intended expanding into Qatar and Oman.

A decision was taken during the reporting period to set up general construction operations in the Middle East region to prepare for an upturn in the market.

Meyburgh said medium-term prospects indicated a sustainable performance although no significant growth was forecast until after February 2011.

The group yesterday reported a 23 percent growth in headline earnings a share to R1.112 in the six months to August from 90.4c in the previous corresponding period.

Revenue rose by 56 percent to R4bn and operating profit by 46 percent to R257m.

Meyburgh attributed the healthy increase in revenue and operating profits to good organic growth and the successful integration of prior acquisitions, including the merger last year with Stocks.

The group declared its first interim dividend of 25c a share.

The group's order book of R6.6bn in August had placed it on track to meet full-year targets. Cash on hand at the end of the reporting period rose 53 percent to R1.3bn from R867.4m.

The shares shed 4.55 percent to R10.50 on the JSE yesterday.