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Stefanutti lifts interim profit, order book at R6,6bn

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JSE-listed engineering and construction group Stefanutti Stocks on Wednesday reported that revenue and operating profit for the six months ended August, had grown by 56% and 46% respectively.

Revenue of R4-billion increased from R2,6-billion in the comparative period, with operating profit growing to R257,1-million from R176,3-million. Net profit after tax increased by 39% to R198,1-million, while headline earnings of R195-million translated into headline earnings a share of 111,2c, up from 90,4c at August 2008.

The business unit which contributed the most to the increased operating profit, was the Structures division, which accounted for 37% of the operating profit, with the Roads and Earthworks division accounting for a further 29%, and the Building division accounting for 26% of overall profit.

The company also reported an order book of R6,6-billion at the end of August, which Stefanutti Stocks CEO **Willie Meyburgh** said had set the group on track to meet full-year targets.

The largest contributor to the order book was the Building division, accounting for more than R3,5-billion.

Meyburgh said that the group's financial position provided a solid foundation in the current economic climate. Nevertheless, he was realistic about the future impact of market conditions on the group, and expected shrinking tender margins and fewer contracts, owing to the lack of project funding in the market, to present challenges going forward.

"The number of projects that are out to tender are getting fewer and fewer, and obviously the competition is fierce, with the result that the margins are down, and we see that going forward with at least another 12 to 18 months," Meyburgh said.

Stefanutti Stocks has reported that the group's Structures business unit overcame a smaller tender pool and pressure on margins to shine during the period. Meyburgh attributed its strength to a focus on large-scale government projects.

He remained confident that the full year budget would be achieved. In the marine sector Structures won major contracts for the Chemical Berth at Richards Bay and for the Ben Schoeman Dock in Cape Town (in a joint venture).

Meyburgh noted that although the marine sector remained buoyant, the general local construction industry is suffering which meant the business unit would continue to look cross-border to Africa for growth.

The building sector of the business successfully restructured operations to improve performance in the face of depressed markets in the Cape and Botswana. Meyburgh said that the opportunities in Gauteng, KwaZulu-Natal and Mozambique helped offset this regional decline, vindicating the geographical expansion programme over the last year.

However, he pointed out that poor market conditions were starting to dent current tender margins and he expected this to continue.

Against stacked odds, the housing operation was faring well with almost the full 2011 order book in hand, institutions building houses, often for their employees, were offering a growth avenue for the operation.

The mechanical, electrical and power unit was hit by contract cancellations when the commodities market dropped and mines halted expansion plans. However, Meyburgh said that other contracts were making up for this and the introduction of new products was expected to spur growth.

Mining services focused on the future when it purchased the small Waste Energy Recovery Management company during the period to augment its foothold in the coal-mining sector.

“Growth in roads and earthworks was driven mainly by roads and road rehabilitation projects,” said Meyburgh.

The business unit secured two new major contracts following the completion of the Rea Vaya bus rapid transit project in Johannesburg and the Sikhupe joint venture for the Swaziland Airport.

Looking ahead, he noted that the business unit would seek to participate in the next phase of the Gauteng Freeway Improvement project in 2012, on which Meyburgh estimated that the South African National Road Agency would spend about R23-billion.

Concessions, the group’s business unit offering public-private partnerships to accelerate services delivery for government, was being negatively affected by the lack of available credit and Meyburgh was concerned the roll-out of projects might be delayed as a result.

However, he believed that the group’s experience in this market, having just completed the Southern African Development Community (SADC) headquarters in Gaborone, would help generate further group participation in growth areas, such as toll roads and municipal infrastructure projects.

Internationally, Stefanutti Stocks diversified out of Dubai when the region was dealt an economic blow, venturing into Abu Dhabi and Bahrain and now eyeing Qatar and Oman where development is ongoing.

Although the Middle East market remains flat, the group is confident that establishing general construction operations in the region is the right move to capitalise on a future upswing.

Meyburgh was cautious going forward. He emphasised that margins would contract further as competition escalates in the market, and securing new work would be more difficult in the immediate future.

However, he remained optimistic regarding certain prospects. “The group’s alignment with the public sector should see growth, particularly in municipal services such as waste management, water purification and sanitation in addition to the rail, pipeline and renewable energy sectors.”

Meyburgh noted that aggressive marketing strategies across the group are expected to help secure opportunities, and says management was on the constant lookout for appropriate acquisitions.

Stefanutti Stocks would “aggressively” pursue opportunities north of South Africa’s border, and would look to further expand its operations in Nigeria, the Democratic Republic of Congo, Tanzania, Rwanda, and even Liberia.

On the local front, Meyburgh noted that the group would also pursue tenders related to the R805-billion government infrastructure spend, and added that around 30% of the intended budget for this spend fell within the realms of Stefanutti Stocks' experience.

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