Stefanutti Stocks’ performance impacted by the distressed trading environment but says some opportunities do remain

Johannesburg, 30 May 2019 – JSE-listed multi-disciplinary construction group Stefanutti Stocks, which operates throughout South Africa, sub-Saharan Africa and the United Arab Emirates ("UAE"), today released results for the year ended 28 February 2019, reporting contract revenues of R9,9 billion and noting the negative impact of the South African economy on its results.

“The group’s performance continues to reflect the impact of operating within a distressed trading environment,” said CEO, Willie Meyburgh. “As we’ve previously reported, the group is pursuing a number of contractual claims and compensation events on a large public sector power project in South Africa. In terms of the requirement of International Accounting Standards, we have provided R263 million for potential unrecoverable site management costs to complete the project. We are actively pursuing our contractual rights in terms of the dispute resolution process as set out in the contract.”

Including this provision, the group reported an operating loss of R158,0 million (restated Feb 2018: operating loss of R506,0 million), excluding results from the UAE operation, which contributed R66 million (restated Feb 2018: R48 million) towards the share of profits of equity accounted investees.

Earnings and headline earnings per share reported a loss of 65,99 cents (restated Feb 2018: loss of 317,77 cents) and 70,12 cents (restated Feb 2018: profit of 67,51 cents) respectively. Headline earnings per share in the comparative period was impacted by the reversal of impairment charges relating to assets.

The group’s order book is currently R11,5 billion of which 43% arises from work beyond South Africa’s borders.

Capital expenditure for the year reduced significantly to R109 million from the R500 million incurred in the prior year.

“As a result of the adverse market conditions facing the industry, the group experienced a further increase in delayed payments from clients. This practice once again had a negative impact on trade and other receivables and payables,” said Meyburgh.

Cash generated from operations increased to R361 million (restated Feb 2018: R322 million). Notwithstanding a reduction in working capital of R246 million (restated Feb 2018: an increase of R293 million), the group’s overall cash decreased to R881 million (restated Feb 2018: R916 million) due to the repayment of R242 million of liabilities.
“Due to the liquidation of a contract miner, delayed payments from customers and the funding of the previously mentioned public sector project, the group is experiencing short-term liquidity pressures,” said Meyburgh, adding that the group has put a funding plan in place. The plan includes raising the required funding through a combination of specific ring-fenced project financing, a number of alternative funding solutions and, only if required, a possible fresh issue of shares.

“The first part of the funding plan, being the specific ring-fenced project financing, has been secured, with the remaining aspects of the plan being actively pursued. We will advise shareholders accordingly.”

Review of operations

Construction & Mining’s contract revenue increased to R5,3 billion (restated Feb 2018: R5,0 billion) but with a reduction in operating profit to R112 million (restated Feb 2018: R166 million) with an operating profit margin of 2,1% (restated Feb 2018: 3,3%).

“This business unit’s results were materially impacted by the liquidation of a South African mining client to which the Mining Services division had exposure, and the significant underperformance of a project in the Roads & Earthworks division. However, the Zambian and Swaziland divisions delivered good results.”

Albeit at reduced levels, tender enquiries and awards received from the mining sector continue to support Construction & Mining’s order book. As a result of muted investor confidence in the economy, South Africa continues to experience reduced infrastructure spend in both the public and private sectors.

Meyburgh said that the long outstanding amounts due from the governments of Zambia and Nigeria continue to be a source of frustration. “The outstanding amounts are not in dispute and periodic payments are being received. In both Nigeria and Zambia work will only recommence on affected contracts once all outstanding amounts have been collected.”

The Building business unit’s contract revenue reduced to R3,4 billion (restated Feb 2018: R4,4 billion) as a result of challenging conditions, and as a result of the provision raised in terms of IAS 37, operating loss increased to R251 million (restated Feb 2018: operating loss R4 million).

“If the provision is excluded, the operating profit would be R12 million, excluding profit from the UAE operation,” said Meyburgh, adding that the Mozambique and Coastal divisions had continued to deliver good results, but that delayed payments from developers working for government in the social housing sector further impacted the business’s cash resources.

Mechanical & Electrical’s turnover increased to R1,2 billion (restated Feb 2018: R1,0 billion), with the previously reported claim against the Oil & Gas division by an international client, having been settled under duress at a cost of R38 million. This has resulted in this business unit declaring an operating loss of R19 million (restated Feb 2018: operating profit R13 million).

The arbitration matter relating to the cancellation of a petrochemical contract scheduled for the first quarter of 2019 has been postponed, due to a fundamental change in the client’s defence.
Safety
The group’s health and safety performance for 2019 improved from that of 2018. Management and staff remain committed to enhanced health and safety policies and procedures, and together strive to constantly improve the group’s safety performance. The group’s Lost Time Injury Frequency Rate (LTIFR) at February 2019 was 0,02 (Feb 2018: 0,11) and the Recordable Case Rate (RCR) was 0,36 (Feb 2018: 0,54).

Outlook and strategy
Meyburgh concluded by saying that confidence in the South African economy remains at an historic low. “A continuing contraction in construction activity will result in turnover and operating profit margins of the group remaining under pressure in the short to medium term.”

“There are, however, some opportunities in the local market which include surface mining related services, selected open pit mining contracts, petrochemical tank farms, smaller oil and gas projects, pipelines, water and sanitation treatment plants as well as warehouses and some design and construct opportunities in the building sector. Cross-border opportunities exist in road and bridge construction, bulk pipelines and mixed-use building projects.”

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