Conference call transcript

27 August 2015

RESULTS FOR THE YEAR ENDED 30 JUNE 2015

Ed Jardim
Good afternoon ladies and gentlemen. Welcome to the Murray & Roberts annual results for the year ended 30th June 2015. Welcome to those on the call and on the webcast as well. Safety first in everything that we do. Just from a safety point of view, if there is an emergency you will hear an audible alarm, and you have two evacuation points off this floor. Firstly out to my left and left again. There is an emergency evacuation door there. Break the glass. Please move down the staircase to the ground floor, out and around the building to the public parking space across from the building. That is the emergency assembly point.

Your second option off the floor is once again out to my left through the lift lobby. There is a set of emergency stairs on either side of the lift. Please take those down to the ground floor and out the main entrance where you came in this morning to the emergency assembly point in the public parking space. Before I ask Henry and Cobus to kick us off I would like to ask Arthur Thompson from the Investment Analyst Society to please do an opening for us.

Arthur Thompson
Good morning everybody. Thank you all very much for coming today. This is one of the many presentations that we've had from Murray & Roberts over the years. As you know they have been one of our previous winners many times over. It is really not about what the share price is or what the industry is doing at a particular time. It is the way the investors and the company conducts itself with relation to investors and what they tell us about, which allows us to evaluate the company in whatever circumstance it finds itself, to learn about the strategic direction of the company and to find out how they are coping with what as we know is very tough times at the moment. Without further ado I would like to hand over to Henry Laas and Cobus Bester. Thank you.

Henry Laas
Thank you, Ed. Thank you, Arthur. Ladies and gentlemen, good afternoon and welcome to our results presentation for the financial year 2015. It is nice to have you all with us this afternoon. A special welcome to two of our non-executive directors, Dr Suresh Kana – welcome Suresh – and Ntombi Langa-Royds. Welcome, Ntombi.

We have shared our vision for Murray & Roberts with you on previous occasions. And that is for the group to be by 2020 a leading international project engineering and construction group focused on the natural resources market sectors and also supporting infrastructure. Now, during the past couple of years – I'm talking the past three or four years – we have made good progress in putting the building blocks in place to achieve this vision by 2020.

In the year under review, financial 2015, we all know that the global economy is very uncertain, subdued. Low demand for natural resources, weak commodity prices, specifically oil, and all of that weighed on the group's results for financial year 2015.

I would like to start off this presentation by referring you to a few key takeaways. The first is you need to realise that Murray & Roberts is changing and transforming from being predominantly a South African engineering construction group to an international player in the natural resources market. Now, that is because of our strategy to focus on natural resources. And as you know natural resources is a global play. That is making Murray & Roberts more and more an international group.

In the year under review 94% of our earnings before interest and tax came from the two internationally-focussed platforms, Oil & Gas and Underground Mining. We have experienced a decline in our order book over the past two years, and I think that is reflective of the trading conditions and economic conditions under which we are conducting our business.

As I said at the beginning, these challenging economic conditions did weight on our financial results for financial year 2015, and we do expect that earnings for the next financial year, or the year that we're in now, financial year 2016, will be under pressure. However I do not expect a significant drop in earnings, but we do believe that the earnings will be under pressure.

We do think that the Oil & Gas platform's contribution will decrease compared to the previous financial year, although we do expect that Underground Mining may come through with a slightly improved result compared to financial year 2015. But all in all from a group point of view we think earnings will be under pressure. However, we are pleased with our balance sheet strength. I mentioned earlier on we are busy putting the building blocks in place as we build our strategy, and we are still in a position to continue with that, to pursue growth opportunities, to utilise the cash on our balance sheet, to implement acquisitions, and we will continue to do so. We have communicated to the market over the past year the three acquisitions that we have successfully concluded, and we have plans in place for the new financial year in that regard.

As far as our claims are concerned, Gautrain and Dubai Airport, we've been talking to you about this for years now. But I can say with a lot of confidence that we are making good progress. Solid progress, although it is taking a lot of time. But there is a lot of value tied up in these claims and we are making progress towards having those resolved.

Our project pipeline. I said this morning when we did the presentation to the staff when we engage with investors and analysts during the course of the financial year we are always talking about the year-end position, where consensus is and where the year will end. But once we announce the results nobody is interested in that anymore. That is now history. People are looking forward. They want to talk about the order book and they want to talk about the new financial year. I believe that our order book considering the current market circumstances is strong, although it is down on last year. The order book is still strong. But the order book pipeline we believe is reasonable. However, the uncertainty of that order book pipeline in there. We just don't know when and at what pace these opportunities will come to market.

What is it that differentiates Murray & Roberts from our competitors and from our peers? We believe it is our capability to offer a service across the lifecycle of the project right from the inception or the development phase, through the engineering phase, through the construction phase, through the commission phase and during the operations phase. We can provide that service. I thin koru exposure that we have to natural resources is also a differentiator. And finally the international footprint that we have is also a differentiator.

So let's talk about 2015. Revenue is down to R30.6 billion. And you will see when we get into the details which Cobus will share with you it was predominantly in the Oil & Gas platform where the decline in revenues came through. However, headline earnings of R2.01 are marginally down on the R2.05 of last year. Attributable earnings R881 million. It is down on last year. Last year included R422 million of profit from disposal of discontinued operations and also some trading in our discontinued operations, and that did not repeat in financial year 2015.

Net cash R1.4 billion. I think it is a good cash position. It enables us to pursue our strategy and to continue to implement the plans that we have in the group. It is down on last year, mainly for two reasons. Firstly, the funding that went into the acquisitions in the prior financial year. And then obviously we also had some advance payments on projects that we had to repay to our clients, and in the current market we were not able to secure new advances on new projects.

Net asset value per share up to R15. Order book R38 billion. And there is a lot more detail on the order book in the presentation. As far as the dividend is concerned the board has declared a dividend of 50 cents per share which is in line with last year's dividend.

Our lost-time injury frequency rate is 0.79. Ladies and gentlemen, that is a good rate. It is an average for the group. But if you split it up for each of the business platforms in the group and you measure their performance relative to the other companies that play in that market space you will see that it is a leading safety performance. We are very pleased with that. Having said that, something that we are very disappointed about is the fact that we had four deaths in the business in the past year, four people that lost their lives in our operations. That is something we are saddened about and we need to do something about it.

For that reason we have decided that in this current financial year we will roll out a major accident prevention programme throughout all the business platforms in the group. And this is basically a tool which is aimed at mitigating the fatal risks that our people get exposed to on the operations, things such as working at height and fall of ground, just to name two examples.

This is a slide that we've used previously many a time in our presentations, and I think it is important to reflect on that again. What you see on the bars is attributable earnings, and the line, this black line, is headline earnings per share. The yellow portion is attributable earnings from continuing operations and the grey portion from discontinued operations. Now if you take 2011 you will see that there was a loss in discontinued operations and there was a loss from continuing operations as well. Now, there are a couple of take-aways from this slide. The first is the grey portion representing discontinued operations, hardly any grey portion in 2015. And in these years over here the profits from discontinued operations most of that was associated with the disposal process where we sold off many companies in the group. And with very little contribution in FY15, only R22 million, you will see that we have now basically concluded the disposal process of discontinued operations.

The second important point is when you look at earnings, attributable earnings for continuing operations, for the past four years every year we were able to report growth on the previous year. For financial year 2015, R859 million compared to R839 million of the previous financial year. But you will see in the detail when Cobus takes you through the detail is that in financial year 2015 the operating income was down but we had the benefit from a reduced tax charge which overall enabled us to report this position of R859 million.

Let me move on to our strategy and talk about that a little bit. You are now familiar with the four business platforms that we have within Murray & Roberts, Oil & Gas, Underground Mining, Power & Water, and Infrastructure & Building. This is the first time you will see Power & Water in this presentation. That platform previous was called Energy & Industrial. And in the final quarter of the previous financial year, of F2105, we went through a major restructuring. Market conditions and operational requirements resulted in a restructuring in that platform. It was an extensive restructuring and at the end of that process we've narrowed the focus of that platform to power and water, and for that reason we've changed the name from Energy & Industrial to Power & Water. And Cobus will talk a little bit about the results which led to this restructuring.

Our new strategic future. There are a few strategic objectives and there are strategic priorities that we are focussing on in delivering the strategy. I just want to talk to a few points here. Focus on international natural resource market sectors. Now, people have asked me not so long ago, are you still confident with your strategy to focus on the natural resources market sectors? One thing you must understand is you cannot adjust your strategy every year. You have to have a long-term view when you talk about strategy and setting strategy for the group. And we believe that as long as the global economy grows, as long as there is population growth globally, as long as urbanisation happens, there will be demand for natural resources. It will come back. So it is all cyclical. We are currently going through a tough time. We are all aware of that. But I still believe that demand will rebound, it will come back, that we will see the commodity cycle turning again and the demand for natural resources coming back. We are confident that from a strategic point of view that our focus is in the right place.

This point over here, diversify the business model, I don't want you to get confused with the term that we use. We're not talking about diversification and getting into many new businesses. We have actually narrowed the focus of the business over the past couple of years in the operating or the business platforms that we have defined for the group. What we say here is that each of these business platforms has got a narrow market focus. On those projects we would like to provide a broader range of services right from the development phase, through the engineering phase, through the construction phase, the operations phase and maintenance right to the end of the project. So it is a broader service. It is a service across the project life cycle, but in a very clearly defined market space.

And then enhance shareholder value. All of these strategic objectives ultimately result in enhanced value for our shareholders. That is what we are targeting. I did share earlier today with our colleagues last night I was having dinner with my wife. We don't normally talk about work and the company at home. I said to her, Murray & Roberts, what do you think we do? She shops at Menlyn quite often and we are busy with a project at Menlyn. She said we are a buildings company. And I said no, we are not a buildings company. And that is the perception that people still have about Murray & Roberts. If you talk to people in South Africa about Murray & Roberts the perception that they is Murray & Roberts is a buildings company. We need to reposition Murray & Roberts and its brand with its stakeholders.

Final point here, clarity on dividend policy. You will have noticed in our press release we did disclose our dividend policy to you. What we decided was on an annual basis the board will consider a dividend, and we will do so at a cover of between three and four. So that is the policy for now.

Our business model. Four business platforms. Now, we've got a choice here, and we've considered this not so long ago. We could either have opted for this business model where we have four business platforms, client-centric business platforms providing services internationally for these two platforms and for these two here in Africa. Or alternatively we could have said we want to be a general contractor in the various geographies. In other words we could have duplicated Murray &Roberts in Australia, duplicated in Murray & Roberts in the US or Canada and be a generalist in that market. And we don't believe that is the right plan for Murray & Roberts.

The business model is what you see o the screen behind me. That enables us to develop specific capabilities and competencies relevant to that market sector. It enables us to develop specific relationships with clients in those markets. And ultimately through that will come differentiation and through that will come competitive advantage. And we believe that the business model that we have of a client-centric business platform structure is what is required for Murray & Roberts as an international group.

The project value chain. Just to let you understand a bit more detail why we say we want to play across the lifecycle of a project. This is a lifecycle of a project starting from the development stage, through engineering, into construction, operations and services. Historically Murray &Roberts derived most of its income from this segment of the value chain. As you can see return on capital employed and EBIT margin is the lowest in this segment relative to any of the other segments. If we want to play across or provide a service across the lifecycle of the project what we are saying is we want to grow into these segments and we want to grow into these segments so that we have a more balanced risk profile in our business and a better EBIT margin ultimately.

So how do we achieve that? How do we achieve these positions in the other segments of the project value chain? We can grow into those segments organically, or alternatively we can undertake bolt-on acquisitions. Now, a bolt-on acquisition is not an acquisition that you do to in the short term immediately boost your earnings profile. It is an acquisition that you do for strategic regions, either to position yourself in a geography where you want to be, establish a presence to grow from, or alternatively to acquire a capability that will enable you to provide a service in a specific segment of the project value chain which you may not have at that moment in time.

So three acquisitions in the past financial year. The first is CH4, small acquisition in Houston in the USA. CH4 is an engineering company, an engineering consultancy that is providing services to all the major gas companies. All the major oil & gas companies are on the client list of CH4. A small company, but I think very important if you want to be a player in the oil & gas space you have to be in Houston. In the new financial year, the current financial year 2016, we are considering further expanding our footprint in the oil & gas sector, and we are thinking about establishing a presence in Canada, which is also very important from a long-term growth point of view.

But a very small acquisition, R57 million. Booth Welsh, R79 million in Scotland. Again it is an acquisition of an engineering company, a good network, a good client base, but enabling us to make use of that business and to leverage the other capabilities that we have within that platform and to grow it substantially. And finally Aquamarine, a small acquisition in South Africa. I mentioned earlier the Power & Water platform. We now have a capability from a technology point of view as far as water treatment is concerned. Aquamarine is a very small company, but very interesting technology which is scalable. The capacity is scalable. So you could on a modular basis provide significant capacity for water treatment by applying the technology that we have acquired now through Aquamarine.

But how do these bolt-on acquisitions perform for the group, and does it actually make sense? What you see here is a company called E2O which is part of the Oil & Gas platform. The company was acquired in 2013. It has got a capability to undertake commissioning work on LNG projects. At the time of the acquisition we knew that the major construction activity on the LNG plants in Australia would come to an end, and after that we would enter the commissioning phase. And we are as we speak in the commissioning phase in Australia now. The construction activity on the major LNG projects has basically come to an end. All these projects are going into the commissioning phase. And this is what has happened with E2O over the past period. It has grown from R46 million EBIT contribution in FY13 to R144 million in FY15.

I'm not saying that Booth Welsh, CH4 and Aquamarine will be able to replicate this phenomenal growth. We must understand that the market in Australia was really opportune for this acquisition because of all the projects, all the LNG processing plants that the construction came to an end. And there is a massive market for commissioning work in Australia. And through E2O the Oil & Gas platform has got more than 50% share of the commissioning market in Australia today.

Booth Welsh, in the current year a small contribution. It's the same for CH4. And a very small contribution from Aquamarine. But the important point is if you look at the EBIT margins of these businesses, 7%, 10% and 8%, in the construction business we have got used to maybe a 3% margin if things go well. So it is all part of the plan to provide a service across the project value chain to enable the group to get income from sectors of the value chain where it is able to achieve a better margin relative to what we are able to do in the construction space.

As far as our global reach is concerned I mentioned that we are an international group. How do we determine where to establish ourselves internationally? What you see on this map here is obviously the corporate office in Johannesburg, but the Underground Mining business in [unclear], Salt Lake City, Santiago and in Zambia and also in Australia. If I take Oil & Gas, the green, Brisbane, Perth, Glasgow, Houston and I've mentioned somewhere in Canada we're considering establishing a presence in F2016. So the thinking behind that is in the natural resources market sectors we have established where the major opportunity for our business is, and in those geographies where we've identified major opportunity we establish a permanent presence. Through a small acquisition, a bolt-on acquisition, by opening up an office we establish that position.

That does not mean that we will not work in any other part of the world. Our client-centric business platform structure enables us to build closer relationships with clients in these market sectors. Should any of these clients with to undertake a project in a geography where we don't have a permanent presence we will follow them on an ad hoc basis, we will undertake the work and work with our clients. But it is our global footprint, and as I've said today Murray &Roberts is really an international engineering and construction group. At this point I would like to hand over to Cobus. Thank you, Cobus.

Cobus Bester
Thanks Henry. If you page to 42 or 44 in your pack there are lots of details on every line item in the balance sheet and income statement. I'm not going to refer to those slides individually, but as I go through the balance sheet and income statement you can follow the detail there. So there is lots more detail in the pack than what I'm going to talk about.

So if you sum up the results for het year you can really look at three lines. EBIT is down R400 million. Discontinued operations R391 million. But that is excluded from headline earnings from continuing operations. The R408 million was compensated, the loss of income there was compensated by tax savings and then the minority interest. So we ended up with R2.01 headline earnings per share from continuing operations as opposed to R2.05 in the previous year, more or less the same.

Let’s just look at the different businesses. On the EBIT line Infrastructure & Building is more or less the same. You will see the result last year was R196 million. This year R205 million. The make-up is very different, and in the segment reporting we’re going to analyse that, but more or less the same result. The Mining business is a lot better than last year, an excellent result in the second half of the year. Oil & Gas, although they’re about R170 million down it is still a significant profit, R800 million. And I will give you more details on that.

The problem area for the year, the disappointment for the year, is what is now called Power & Water. Major restructuring during June and July. And you will see there was a reversal compared to last year of about R280 million. Going back to EBITDA it is obviously also down. You will see that depreciation is down R100 million. It is now R575 million. One of the reasons it was down on last year is that capex was way down. Capex was only about R425 million this year, and last year it was more than R900 million.

Interest expense, slightly up. The reasons why it is up on last year, you can recall that we did the minority transaction in Clough in December 2013. So we only had the loss of interest income on the cash that we used to buy out the minorities, and the interest cost on the loan that we had to take out to buy out the minorities. Obviously in the new financial year it is a 12 month expense.

Tax, when we bought out the minorities on Clough we didn’t take into account any tax savings that may come from forming a tax grouping in Australia. They tax companies on a group basis. So a number of Murray & Roberts companies in Australia form a tax grouping. And two or three years ago we had huge losses on the GPMOF contract, a Cape Town-run marine contract done in Australia, a R200 million loss in the end. I think Henry referred to the settlement. And the final settlement of those claims that we had came through in October last year. But the loss can now be utilised. So for the next year or two you will see still a reduced tax charge. This tax charge came in at a rate of 18.3%. I think normalised in about two years from now it will be about 32% because we work in areas where the tax rate is closer to 32% than the 28% in South Africa. So that benefit was never taken into account in evaluating the Clough minority transaction, but we are now getting that benefit.

And then obviously non-controlling interest in the first six months of 2014 we still had to share the profit with 38% minorities. And what is left there, that R13 million, is really the minorities in Tolcon that we’ve sold. So the discontinued operations, there are three numbers in the presentation all to do with discontinued operations. Henry put a number up of R22 million. He said that this R881 million is made up of discontinued operations of R22 million and continuing operations of R859 million. On the income statement you see R32 million. At the back of the pack where we look at how the discontinued operations are made up there is an EBIT number of R19 million.

So now three numbers, but all three are correct. The R19 million is the EBIT number. The R32 million in the income statement is after tax. So fortunately we had a credit to the tax line on discontinued. And the R22 million is after minorities because you disclose minorities on discontinued operations on a separate line. So the R22 million that Henry put up is correct.

Right. On the balance sheet side I think we always start with the cash. Last year it was R1.8 billion net cash. This year it was R1.4 billion. You can see the gross cash reduced by R1.4 billion, from R4.3 billion to R2.8 billion. And the interest-bearing debt, split here between short and long term, but if you add those two together it is R1.1 billion reduced by R1.1 billion. So you can say this reduction in cash of R1.4 billion, R1 billion was used to reduce the debt. And that is where we are now. Obviously there is lots more movement, and you will see it in that waterfall graph at the back of your pack. Debt was reduced by R1 billion out of the R1.4 billion reduction. We paid a dividend of about R200 million. We made acquisitions of R162 million. And then there was a R200 million repayment of advances. So that is more or less a very high-level analysis why cash reduced.

Plant and equipment, as I said capex was only R425 million as against R950 million or something of last year. And of the R425 million 70% of that is from the Mining business. And we always said it’s very difficult to forecast capex in the Mining business because it is very dependent on project capex. So obviously we didn’t pick up all the projects that needed capex in the current financial year in Mining. The R425 million is more or less made up 70% expansion capex and 30% replacement capex.

Other non-current assets, that is assets that we will realise not in the next 12 months. That is why we classify it as non-current. That is made up of the non-current portion of some of the uncertified revenues. So we don't think the Gautrain claim process will be completed in the next 12 months. Neither will the Dubai claim process, the Dubai Airport contract, will be completed in the next 12 months. We've mentioned it before, and it will be there until the claim in Dubai is resolved.

There is a subcontractor in Dubai that did the air conditioning and the plumbing and the electrical work. They have a claim against us, but it is a flow-through claim to the client. So there is a huge number, R872 million, that we include in non-current assets and it is all sitting on non-current liabilities. So those are part of the uncertified revenues. Uncertified revenues in total in the current year are about R2.1 billion, of which part of that sits under non-current assets. And I will talk about the increase, why it went from R1.5 billion to R2.1 billion, just now.

The rest of the R4.6 billion is made up out of our investment in BCC, the Bombela Concession Company. We carry an investment value of just over R700 million. We use a cap rate of 18.5%. We used to have 19.5% but 18.5% is still very conservative. And by doing a valuation of that investment a fair value adjustment of R172 million came through the income statement in the current year. That is underpinned by a dividend of R132 million.

And then there is goodwill of R600 million. Last night I heard someone saying on the radio that net asset value per share is R15 per share. But take off about R3 for goodwill and take off R5 for the uncertified revenues and you're more or less where we are, where the JSE says the value should be. Now, we don't believe any of the goodwill should be impaired. There is R600 million. Half of that relates to Clough when we bought Clough many years ago. And as you could see earlier on we made three acquisitions in the current period, R162 million. But the goodwill element of that was R148 million. The reason why a large portion of the purchase price is goodwill is when you buy an engineering company there are no real assets in the company, just people and future order book. So we don't think there is any reason to be concerned about the goodwill element. The difference between goodwill and intangibles, there is about R200 million computer software which obviously we are using. And then of course deferred tax assets also sit in that number.

Current assets, no real concern there, no strange movements. The current portion of uncertified revenues will sit in that number. It went up from R1.5 billion in total to R2.1 billion in total. So we carry R2.1 billion in uncertified revenues. When it was R1.5 billion last year we said to the market we've never disclosed the exact numbers of the Gautrain claim and the Dubai claim, but we did say that those two make up 80% of the R1.5 billion. The R600 million in the current year relates to some projects in Power & Water. And we have a number of disputes now with a few of our clients. It is not huge numbers.

There is a project in Australia, Wheatstone, where we are not taking any profit at this stage. It is a jetty contract that we're building. We will talk about that a little bit more when we look at the segment accounting. There is the uncertified revenue, but it is pure timing. So we are not concerned that the uncertified revenues will not turn into cash. Unfortunately the major ones, Dubai and Gautrain, just take a lot longer than anticipated.

Interest-bearing debt, in total about R1.1 billion made up out of asset-based finance and the interest-bearing debt in Australia. So when we did the minority transaction in Australia three of our SA banks assisted with a bridge loan. And in December last year, January this year, we replaced those bridge loans with a facility in Australia. So there is about R850 million debt in Australia. We can't really now say it is still to do with the minority transaction. That is just now part of our debt profile in the company.

Non-current liabilities. Thermo, which is that subcontractor in the Middle East, is the largest portion of that, R872 million. Current liabilities is always interesting. I think it is in note five of the press release where we disclose amounts due to customers. That is where we get advance payments from customers. And that amounted to R2.1 billion. It came down by about R200 million this year. It means we had to pay back. It was a huge number, I think over R3 billion a couple of years ago. The trend is that it's more and more difficult to get advance payment from customers. They want to keep their own money and don't want to give it to the contractor. But it seems like it has now stabilised and there is still R2 billion customer money sitting in our balance sheet.

Moving on to revenue split and EBIT split per platform. Henry earlier on said that the internationally focussed businesses contribute about 93% of profit. As far as the value chain is concerned, at the bottom there we list the value chain that Henry put on earlier on, planning, construction, commissioning, operations and maintenance. And you will see that construction still makes up 32% of our EBIT. But a couple of years ago that was probably 100%. So over the years we have been able to diversify and maybe diversification of your profit line is not the correct financial term, but you can see what the end result is of that strategy.

From a geographical point of view obviously Australia is still a big portion of profit. Maybe we should look at South Africa. 38% of turnover still in South Africa, but only 11% of profit, which is quite interesting.

Getting into the segment reporting, you can see the overall profit of Clough reduced from R1.026 billion to R838 million. but included in Global Marine – and we must point out that the marine business that used to be called Murray & Roberts Marine is part of Global Marine here – you can see there is a reduction in profit. R2 billion revenue, and half of that revenue relates to this Wheatstone project where we haven't taken any profit. We report it on a break-even basis. We're engaging with the client. It is on schedule. There are going to be no penalties. There are going to be no losses. But we are not at a stage where we can be confident to declare a profit. And we definitely didn't want to increase uncertified revenues to declare a profit. So that is the reason. And we had a large budget more or less in line with the reduction against last year. The profit should have come out of Global Marine on Wheatstone and the profits would have been very similar to last year.

Engineering, a good contribution in the current year. Revenue more or less the same. Order book stable. Margins still very good. A little bit of squeeze, 15% to 14%. In January when the oil price dropped clients called all the companies and asked for discounts. We also had to give some discounts, but you can see not a major impact.

Construction and fabrication, what stands out immediately is that there is no order book. So all the construction work that we've done for oil & gas clients has all been completed now. It's not to say that we wouldn't pick up new work, although we have nothing in near orders. Henry will talk about the order book and near orders. There is lots of work on the horizon, but it is not 100% clear when those opportunities will come to the market. But having said that, in Construction we have been building infrastructure projects for Oil & Gas clients. So nothing stops us from doing infrastructure work for other clients. In fact, we are one of two bidders left on the list – so it is a 50/50 chance – to pick up a major freeway, a road project in Perth. So it sounds strange. Oil & Gas is going to build a freeway in Perth. We've done many of these jobs before, but for oil & gas clients on oil & gas sites. So if we pick up this job it will be reported under Construction.

Global Marine I think we've touched on, and commissioning and brownfields. You can work out the numbers, 70% increase in profits and increase in revenues. So that number has been increasing over the last few years, and that's that E2O slide that Henry put up earlier. The E2O revenue is R1.3 billion more or less. And that is only the commissioning work. But we are also doing other brownfield work on existing projects. So the commissioning work will continue until 2018, and then there is a brownfields market that will develop, which is not really a market that is visible to anyone in Australia right now. Once these plants come into production it has got a life of 30 years and it must be maintained for 30 years. Clough is well positioned to grow their revenues and profits from that.

Underground Mining, probably the outstanding performance of the year. You can recall at half year Cementation Africa was at a break-even position. We were still talking about problematic contracts and last portions of the revenue not making any profits. So they ended the full year with a 3% margin, which is in line with what we've said to the market. It means that they've made more than 5% in the second half of the year. Throughout this business we don't have any problematic projects at the moment, absolutely nothing. There was a small loss on two contracts, but it was between R30 million and R40 million in total for the whole business. So I think the business is in a very good position to make money out of the order book that they have.

You can see the order book in Africa is R11.8 billion. We announced somewhere in June that we've been awarded the Kalagadi contract, R4.8 billion over a five year period. And we said that it is still subject to certain CPs. In the budget for 2016 we only have Kalagadi starting in March next year. So there is going to be a long run in before we start the project. And then in March, April, May, June next year minimal revenue, probably no profit. So there is R4.8 billion in that order book which will still be R4.8 billion by the end of 2016.

Australasia is the smallest of the three businesses, but you can see last year the revenues dropped from the previous year. This year a nice increase, a 7% margin. Just going back to Africa. We have equipment called raise drilling equipment. I won't try and explain what it is. Henry can do that. But our whole raise drilling fleet is currently fully occupied. We are thinking of bringing in equipment in from Australia into South Africa to utilise the equipment and to be able to satisfy the needs of our clients.

And the Americas, a slight increase in revenue, a nice increase in profit, mostly coming from the USA. Canada, a small profit, but the USA had very good performance. In the near orders you will see in the Americas we are about to be awarded a $150 million project. So this order book in the Americas could go up with R1.5 billion in the next couple of weeks.

Power & Water undoubtedly is the disappointment of the year. No real issues in the power programme. The revenue is in line with expectation. The interesting thing is we keep on saying that the order book is R5 billion and it will reduce, and I think we've been saying that for three years. So it means Kusile and Medupi, remember the power programme that we report here is really just the boilers that we built for Hitachi at Kusile and Medupi. So the projects are moving out, we are getting more work, and we are maintaining an order book of R5.1 billion. At some stage this will dry up, but we think we will be there on site for at least another two to three years.

We must point out that there are not real issues, but every month it is an arm wrestle to get paid 100% for the work that we've done, but so far so good. We were asked a question last year, what is the claim situation that we have with Eskom. And we said we have no claims against Eskom. That is still the case. Our client here is Hitachi. And we have no claims with Eskom.

The engineering business is any work outside the power programme. So we had issues last year. This year one bad contract. And then we continued to incur overheads of about R150 million trying to win new projects, and we came to the conclusion in May or June that the business needs to be totally restructured. Unfortunately we had to retrench 120 people from the head office here working in this business. The problematic contract is in Namibia. That is coming to an end in the middle of November. So not much revenue coming out of engineering next year if some of the prospects that have been lined up are not awarded soon to us. Henry will talk about those prospects. Even if it is awarded today the work won't start until January or February next year. So we see a very quiet period of about six or seven months in this part of the business. For next year the power programme would have similar revenue numbers, similar return numbers.

Infrastructure & Building. Let's start with the total here. You can see more or less the same number. To start with the Middle East, I think R28 million is a more normalised number. We did say last year there was some close-out of legacy projects. So this is a more normalised number. The marine business last year is now being reported with Oil & Gas, but that R300 million was the final settlement of that GPMOF problematic contract and we were successful in the claim process.

If you look at the rest of the business immediately in the R189 million we made a provision last year of R300 million. Our share of the water ingress issues on the Gautrain. It will be dealt with on another slide on the claims. But the R300 million provision is largely still intact. We've done a lot of engineering work, a lot of design work, a lot of preparation work, but we haven't started the repair works yet. So the provision was made for the capital cost of the repair work. So the balance of the business is the civils business, the roads business. A building business and we have offices in Johannesburg, Western Cape, Namibia and Botswana and then open cast. Included also in that number is the fair value adjustment of R172 million in Bombela Concession Company that I mentioned, although the concession company profit was R164 million. There is a bit of overhead leakage between the fair value adjustment and the concession company in total.

So if you try and reconcile the whole lot – and if we have one on one meetings I will give you the exact recon – the long and the short of it is that the core construction business is profitable, and the profit is more or less in line with what we achieved last year.

I think the project that under-reported is Medupi Civils. Now, Medupi Civils is a joint venture between Murray & Roberts and Grinaker LTA. We have 67%, Grinaker LTA has 33%. It was awarded in 2008. It is a three-year, R2.4 billion contract. We think we are going to be there until 2018. So it has become a ten-year, R9.5 billion contract. And we have resolved all issues with Eskom. It has reported a lower project than tender, but still a very good profit margin. We are busy with an addendum to the contract. The reason why we will be there for another couple of years with a very small team is that as the mechanical guys finish the different boilers we must go back and finish some building work on the outside. So not a lot of construction work left, but we will still be there for two or three years. So a very successful close-out of the main contract at Medupi.

And then the disappointment of the year, one or two contracts in the building business, shopping centres. Not large losses, I must say. We're not talking hundreds of millions. But small losses in the building business.

And then discontinued operations, we don't have to spend too much time on that. There is the R19 million EBIT that becomes R32 million on the income statement that becomes R22 million in Henry's slide. But he is not wrong. It is R22 million. Okay, so this is just the bits and pieces. There is a little bit of assets held for sale still, about R84 million. R60 million of that relates to properties in Clough. Some of these properties I bought 20 years ago I hear. So if you're looking for a very cheap stand in Queensland, come and talk to me. And then there is a little bit left. We sold our interest in the Chapman's Peak operations and the Cape Point operations. That is still sitting in assets held for sale, but it should be closed out in the next couple of weeks.

The next slide is the last one, which is probably a very difficult one. We disclose our margin aspirations and our investment returns to the market. And these are the actuals. On some of these we've achieved what we wanted to achieve. On the return on capital employed it is a pure coincidence that the WACC was 12.7% and the actual was 12.7%. So we have achieved WACC, which is obviously below the market expectation and what's required of shareholders. I think that's the last of my slides. I hand back to Henry.

Henry Laas
Thanks Cobus. Let's move on to the order book. You will see the total for the year is down to R38 billion. And on the right-hand side are our six-monthly intervals, June 2014, December 2014, and from December 2014 to December 2015 slightly up. But R38 billion is the order book. Not much movement in Power & Water and Infrastructure & Building, but it is really the internationally-focussed business platforms. Oil & Gas is down to R8 billion. Two reasons for that. You saw in the segmental reporting slide that Cobus showed you there is no value for construction in that order book. So all the construction work on these LNG processing plants has come to an end and we are into the commissioning phase now. So there is no value for construction projects in the order book. So that's the first reason, the market is changing. On typical commissioning orders you don't win a commissioning order for hundreds of millions of dollars. It is smaller orders, but there will be many more of them as we move through the commissioning phase.

And then the second reason obviously is with the oil price being where it is oil & gas companies are not taking decisions today to make big investments and to build new infrastructure, processing plants, whatever they invest their funds on. So they don't do it now. I think they are all waiting for the oil price to stabilise and give better direction where it will go to. So those two reasons contributed to the decline in this order book, and it is quite a heavy decline.

Underground Mining up to R16.8 billion. In that R16.8 billion is the Kalagadi of R4.8 billion and R3 billion on the Booysendal contract for Northam. Before I started with the presentation I had a question from one of the guys in the audience, but how is it possible that the mining business did better than it did last year and how is it possible that it is growing? Because the commodities is in a terrible space and there is nothing happening in that market, no new investment. That is largely true. But we need to understand that historically about 80% of our revenue and profit in the underground mining space comes from not new mines but operating mines, existing operating mines that do infrastructure replacement work, that sink new shafts, extend their tunnels, get closer to new reef horizons, that type of work. And that is still continuing.

Mining companies for a number of years now have not really invested much in new mines, that is true. They are still not doing so. And they have for a number of years not invested in infrastructure replacement work on the operating mines. But we see that starting to happen now because you cannot delay or defer infrastructure replacement work on operating mines for too long, because if you do you will mine out your reserve and you will close your mine. So that is the type of work which we see is coming through. Mining companies are starting to spend capex on their operating mines for them to stay in business, for those mines to maintain their production volumes into the future. So we see that coming through.

Order book of R38 billion, it means that we've got signed agreements in place for R38 billion as at the end of June. There are near orders of R7.9 billion. Now, what is a near order? A near order is a project which has basically been awarded to us. We have not signed a contract yet. We are busy with final negotiations on certain terms. And once the agreement is signed it will move into the order book. So there is more than a 95% certainty that this value will find its way into the order book. But then we have three categories, category one, category two and category three.

Category one is tenders that we are working on, so a client came to the market and said I want to build this project, please tender for the work. And that is what you see in the R75.3 billion. We are working on tenders to the value of R75.3 billion, and you can see in the various business platforms where that is happening. Now, it doesn't mean that we're going to get R75 billion into our order book. Of that R75 billion that you see there we are competing with other bidders. They will win some of the work, and we will win some of the work, and some of the projects the clients may decide not to proceed with.

So where I said 95% of this R7.9 billion will move into the order book, a much lower percentage of the R75 billion. In the mining business on a value basis we have a one in two success rate on our tenders. In the other platforms it is maybe a one in ten or one in twelve success rate. So this is category one.

What category two is is projects that we are providing or that we are working on either on a pre-qualification – in other words we need to pre-qualify to subject a tender on that project – or we are doing some work on a feasibility study for the client, or we are doing some budget estimates for a client. So it is projects that have advanced to a stage that clients are engaging with the market for various services, either for budget estimates or for work on pre-feasibilities or for pre-qualification.

And then category three is not a tender. There are no budgets or pre-qualification work that we're doing. It is opportunities that we have identified that we believe potentially could come to the market within the next 36 months. So you see as you move out it becomes more uncertain what of the values reported under these categories will eventually end up in your order book.

Another important thing is when we talk about our pipeline, category one down to category three, behind each of these number is a specific project name and there is activity taking place. We could have if we wanted under category three give you a R2 billion number there if I wanted to. I can download from the internet all the projects in oil & gas that will come to market over the next five years and I can put it in the pipeline. That is unrealistic. So what we are talking about here in our pipeline is very specific opportunities that we are targeting, that we are chasing, that we are engaging the market on. We will not spend our time and effort on a project if we don't think there is a chance of us being successful. Many projects out there we decide not to tender on. We don't follow them in the market even, projects that are in category three. But what you see in our numbers is really representing opportunities that we stay close to that are in the pipeline and that we would like to bring into our order book.

Talking about the order book just very quickly, you're familiar with the layout of this slide. You will see for 2016 of the total order book of R38 billion there is R20.7 billion in F2016, R8 billion 2017 and another R8 billion in 2018. Normally this time of the year the revenue that we will ultimately achieve at the end of the financial year, the order book at the beginning of the financial year is about 60% or two-thirds of the revenue that you will achieve.

Last year we had revenue of about R30 billion. If you look at R20 billion now you will say maybe we should do about R30 billion again in FY2016. We are not sure whether the projects will come through in the same fashion as previously considering the current market circumstances that we are experiencing. However, it may be a little bit short of R30 billion, but it is a reasonable estimate at this point in time potentially for FY2016.

We always get questions about the commodities that are represented in our order book. Just a few points here. This is 2014. In 2016 the big move you will find is for manganese. It was only 2%. It is up to 30%. That is because of the Kalagadi project. If you look at platinum there it was 4% and now it is 16% because of the Booysendal project for Northam that is in the order book. And then diamonds. There is was 30%. A lot of that was the Venetia project for De Beers. Now it is down to 13%. We've done a lot of work. The full project value was not awarded to us at the beginning. It comes through in chunks. And we are due to receive another allocation of work of a couple of billion in the not too far future. So that would be in the near orders. But this is the make-up of the commodities in the order book.

We are going to wrap up just now. On major claims, this is the last time that you will hear about GPMOF. All we want to say is we have now received our guarantees and the certificate of final completion is in the process of being issues. So that is now signed and sealed, something that belongs to the past.

Gautrain, there are three claims that we are working on. The first is Sandton cavern. You know that we were successful in the merits award, or the merits were awarded to us. We were successful in that part of the arbitration. We then went into the quantum part of the arbitration. That was heard in June. And I think the 21st June was the end of that period. And within 60 days of then we must actually get the quantum award. So we do expect an award by the end of September on the quantum for the Sandton cavern. It can be minimal. It can be up to R400 million, of which our share will be 50%. That is without interest. That is the capital portion. So we are waiting for that. There are no uncertified revenues on Sandton cavern.

The delay and disruption claim, we have communicated to the market earlier on, a month or so ago, that we were successful in an arbitration award, actually two of them, first on the cantilever bridges and secondly on the late hand-over of land. And we were successful in both those arbitrations, which really now means that the legal basis of our claim has been confirmed through a legal process, through an arbitration process. It is now purely a matter of working through it and deciding what the quantum is going to be. But the argument of do you have a claim or don't you have a claim, that's gone. We have a claim. We have got a legal basis for our claim.

The first part of it, the cantilever bridges, will be heard in the first quarter of FY2016. The merits and the quantum arbitration is scheduled for the first quarter of calendar year 2016. As far as the balance of the claim is concerned, again merit and quantum, that is middle of 2017. So hopefully by the end of calendar year 2017 all of this is wrapped up, unless the parties come to their senses and agree a settlement before the time, which we hope will happen.

As far as the water ingress is concerned you're aware of the tunnel between Park and Rosebank. The water that is going through to the tunnel is outside of specification. It has no impact on the tunnel from an operational point of view. No impact whatsoever from a safety point of view. The tunnel can continue to operate as is for its design life. No issue. However, we are outside spec. And as a consequence of that there was an arbitration award against us that said you must go back and bring it within spec. We've worked on various solutions. We've shared with you that the only solution we believe is capable of achieving that very stringent water specification is a concrete lining in that section of the tunnel. If we put a concrete lining in we will have to close the tunnel to put a concrete lining in.

But the arbitration award which was made against us resulted in many matters still to be resolved between the parties relating to the arbitration award. Some of these matters have found their way into the courts now. So we are not in a position at this stage to give you an indication of when the work will start on this tunnel, and if it will ever start. I don't know. We will see. As I say, we are working through a process. But that is the status of the water ingress. The provision that we have, our share for the construction work is R300 million. We have a provision for that. The other R300 million is carried by the other partners in the Bombela Civils Joint Venture.

Then finally the Dubai Airport. Also solid progress but slow progress. The statement of case will now be submitted in October. I think at the end of August, which is Monday, the chairman of the tribunal has to be appointed. In September we will have a procedural meeting and agree how to go through this process. But I am hopeful that by the end of 2016 calendar year that we will have a settlement, because parallel with the legal process we are trying to negotiate a settlement on the side, and there is a chance in my view that we will succeed in doing that.

The second last slide. At a very high level what is the outlook for each of these business platforms? Oil & Gas, it is uncertain times. We all follow the oil price and we know it is just above $40 per barrel today. So there is a lot of uncertainty. We should not expect the oil & gas companies to make major investment decisions in the short term whilst we have the uncertainty of the oil price.

Having said that, in Australia we have the opportunity in the commissioning market, and beyond that the opportunity in the brownfields market. So that we are staying very close to. In the medium term we are confident that there will be a lot of opportunity. You saw in one of the earlier slides category three under the pipeline there was something like R160 billion for Oil & Gas. It shows that the oil & gas projects have been delayed, deferred and pushed out. So there is major opportunity. It is about the uncertainty around the timing. But we are progressing well with CH4. We are progressing well with Booth Welsh. And as Cobus has mentioned we are looking at other infrastructure opportunities through the Oil & Gas platform in Australia which will be major if we are successful on the freeway project.

Underground Mining. The commodities market is still in a very difficult space. You know a lot better than me what is happening in the commodity markets. But we are very pleased to see the orders that are starting to come through and the way in which we are able to rebuild our order book on infrastructure replacement work. And here and there we have a big win coming through like Kalagadi. You will see here there is major opportunity. York Potash mine in the UK, I think that is about a R10 billion opportunity. Oyu Tolgoi for Rio Tinto in Mongolia. We have done work on that project before. The work was suspended because of issues between Rio Tinto and the Mongolian government about tax at that time. That has now been resolved and the project is continuing. And then Freeport is in Indonesia. We continue to grow our scope on that project. It is a massive mine. You all know about the Freeport mine in Indonesia. It is a major opportunity for our business.

Power & Water. Kusile and Medupi will be part of our life for the next four or five years in this platform. There is opportunity to work with Eskom on maintenance and refurbishment work on existing power stations. There is an opportunity of about R1.3 billion or R1.5 billion. We were not able to put it in the near orders in time for this presentation, but there is a substantial opportunity that we are looking at. Who knows whether the nuclear programme will come to market or not, but nuclear will be a big opportunity for this platform. And Aquamarine, no real contribution in the previous financial year. We are hopeful that in the current financial year, FY2016, we will be able to see some contribution coming through Aquamarine.

Infrastructure & Building. Unless we see increased investment in fixed capital in South Africa it is going to be difficult for us to grow this business. So we are maintaining our levels of revenue. From Cobus' presentation you will see that our profit was more or less in line with what we had last year. So that is happening. On the building side we are trying to position ourselves for opportunities as part of the developer on the project or a co-developer. Some of those are starting to come through, so that initiative is starting to bear fruit. There are some road projects that we are working on, but nothing too material.

Ladies and gentlemen, the final slide, as I said this is what differentiates Murray & Roberts from our competitors. There is a project lifecycle service offering, our focus on natural resources markets, and then the international diversification. Thank you very much. There is an opportunity for questions. Ed.

Ed Jardim
Henry, if we can perhaps start with questions from the floor. We've got microphones available just for the benefit of the webcast team. So any questions from the floor please. Okay, let me start with questions from the webcast then. Henry, Megan McDonald [?] asks under Power & Water in the engineering segment you made a loss of R323 million. When do you expect to break even?

Henry Laas
We do expect that the current financial year, FY2016, will be a profitable year. And that is purely based on the power programme work, which is Medupi and Kusile, which is profitable. As Cobus said we had a bad project in engineering in FY2015 which is coming to an end in the middle of November. And we have accounted for those losses in the June 2015 number. So we don't expect the losses to continue into FY2016.

Ed Jardim
One more question on the webcast from Mohammed at Perpetua. Henry mentioned that construction is a 3% margin business. Is Murray pricing for 3% at the moment, and is this because of the current difficult environment? And what is the risk to this falling even further?

Henry Laas
We are pricing at those levels. I think if you price at higher margins you will not be able to secure opportunities in the current market. Some of the projects we are pricing at slightly better margins than that. But I think if you achieve 3% in today's market it is a reasonable performance. It is very competitive. I don't think the margins will go down. What will bring the margin down is not the fact that we may be tendering at lower margins, but you can imagine if you tender at a 3% margin things have to go 100% right on that job. If things go wrong you find yourself very quickly in loss position. So if we pick up a problem on one of these projects it could quite easily pull the margin down. But it wouldn't be that we are tendering at a lower margin. It is crazy to tender at break even. Then you rather not tender.

Ed Jardim
There are no questions from the dial-in so perhaps it is an opportunity for more questions from the floor.

SBG Securities
[Unclear] from SBG. Could you perhaps comment on the opportunities in your resources business in Africa, particularly East Africa oil & gas opportunities?

Henry Laas
As far as East Africa is concerned we all know about Mozambique and we all know about Anadarko. There was something on the internet this morning about Anadarko having reached I don't know what agreement with the authorities in Mozambique. But apparently all the agreements that they had to reach with the Mozambican government for them to proceed with the project, those agreements have now been reached. We get information that Anadarko is keen to proceed. We know that they appointed the EPC contractor on the project. We've got many bids that we have submitted. None of them are very capable of acceptance. It was all part of the budgeting process whilst the EPCM companies were submitting their bids and securing opportunity on the project. We are well positioned for those opportunities. Should the work commence, should Anadarko proceed, will definitely and also the other construction and engineering companies in South Africa will benefit from this opportunity.

Any other questions? Thank you very much. There is opportunity for us to engage for a couple of minutes. Ed, we've got the first meeting at 13:45. Okay, so there are a couple of minutes for some further questions if you would like to ask some. But let's end the meeting. Ed, is there something to eat next door?

Ed Jardim
Yes.

Henry Laas
Thank you.

END OF TRANSCRIPT