Conference call transcript

1 March 2018

INTERIM RESULTS PRESENTATION

Ed Jardim
Good afternoon ladies and gentlemen. Good afternoon to stakeholders on the webcast and on the call as well. Welcome to the Murray & Roberts interim results for the six months ended 31 December 2017. Before we get started just a quick note on safety. In the unlikely event of an emergency you have two evacuation options off of this floor. Out these doors to my left, left again towards where the bathrooms are, there is an emergency escape door there. Please break the glass. The door will release. Please make your way down to the ground floor, out and around the building and to the emergency assembly point which is the public parking space across from the building. Your second option is once again out these doors to my left towards the lift lobby. There is a set of stairs on either side of the lifts. Please make your way down those stairs to the ground floor and out the main entrance where you would have entered this morning, across the road to the public parking space which is the emergency assembly point. Just a quick note on our packs. We normally include A3 foldout leaflets in our packs. We have now included our results within the booklet that is in your folder. The front bit of the pack will be the slides and the back bit will be the results themselves. Before I hand over to Henry to take us into the presentation I would like to welcome Arthur Thompson from the Investment Analyst Society to do an opening for us. Thank you Arthur.

Arthur Thompson
Thanks very much Ed. On behalf of the Investment Analyst Society I'm delighted to be able to come here again and to have you present your results to us. Thank you for all the time that you have come and spoken over many years, and also for the awards that you have won as well. It seems as if the platform strategy is definitely working. So we look forward to a very interesting presentation, and of course thank you for your hospitality today. Over to you, Henry. Thank you.

Henry Laas
Thank you Ed. Thank you Arthur. Ladies and gentlemen, good afternoon. A special word of welcome to our Chairman, Dr Suresh Kana, who is present here in front. And we also have one of our NEDs, Diane Radley. Welcome Diane. Diane is also the Chairperson of the Audit Committee. Glad to have you with us this morning. Murray & Roberts is a multinational engineering and construction company and we are focussing our business efforts in the natural resources market space targeting oil & gas, underground mining and the power and water sectors. What I would like to emphasise today is that these three market sectors are the primary market sectors. But it is also important that we understand that there are complementary markets to these primary market sectors. And it is very relevant when you find yourselves in a period when your primary market sector is not necessarily presenting you with good growth potential. Then you need to focus your efforts on complementary markets. And that is particularly relevant at this time especially in the Oil & Gas Platform where the oil & gas sector is still a little bit under pressure, or rather under a lot of pressure, and our business needs to consider undertaking work in complementary markets to maintain our earnings and revenue streams that we require within the group.

We believe that the group's strategy is well formulated. The strategy has been communicated to the market. I don't want to go into any detail at this stage, but we believe that we are on the right track and that this strategy will set us up for growth into the future. We also believe that we find ourselves in the time that market conditions may be starting to improve for us in the short to medium term. And for us the leading indicator is what we see happening in our order book and what is happening in the pipeline. So although the order book is under pressure – the order book has come down 10% – our category one opportunities, which are tenders submitted or tenders that we are working on, and category two opportunities in the pipeline, which are projects which we are assisting in feasibility work or project estimates, those values have gone up. So for us it is an indication that there are more projects out in the market being tendered today, projects that are being considered for feasibility studies, and that is the leading indicator which we believe is important for us in the way in which we assess the potential of our business moving forward.

I would like to welcome the people who have just joined. Are we short of a few chairs? There are still a few chairs open in front here if you would like to. Murray & Roberts has for many years been confronted with legacy issues. We always spoke to the market about the legacy issues in the group and all these legacy issues had to be resolved. We are very pleased to say today that there is only one legacy item remaining, and that is the business in the Middle East. Our four remaining projects will be completed by June of this year and the award of the Dubai tribunal's arbitration was scheduled for May of this year but unfortunately that date has moved out to November. But having said that, the drag that the Middle East had on the group is diminishing and in the past six months you will note that there was a significantly reduced loss recorded in the Middle East compared to the prior period. So the legacy issues are largely resolved in the group, and I think that is setting us free in a big way.

We have a robust balance sheet. The information that you will see on the screen covers the past 18 month period or the last three six-month reporting periods. And we maintain a net cash position of above R1 billion which we believe is a healthy position to be in. Especially where we find ourselves after many years of quite challenging trading conditions to be able to say that we have a robust balance sheet is something that gives us confidence in terms of having the capacity as an organisation to pursue the growth that we would like to pursue whether it be organic or acquisitive.

I said just now that we have confidence in our strategy, and that confidence is supported by the fact that at the end of the previous financial year the board declared a dividend, and we have paid that dividend, close to R200 million. We said that we are pursuing an acquisition of an additional 17% stake in the Bombela Concession Company. We have implemented that decision and that acquisition was effective the 8th December last year. So we are making these investments, we are paying dividends, and we are confident in the position that we have. Because we are at the interim stage and in terms of the dividend policy the board will only consider a dividend at full year post year-end. So there is no interim dividend. I see there is another guest that I would like to welcome. Lucas Tseki. Lucas is the CEO of one of our business partners, the Southern Palace Group. Welcome, Lucas. Nice to have you in the audience.

And then finally in terms of the confidence that we have in our plan we've been sharing with the market now for more than a year that we were keen on pursuing an acquisition in the US. And I am pleased to say that we are making good progress with the target and if all goes well by the end of June we would have concluded that acquisition. So for us that is I think sending out the right signals to the market that we are confident about our plan. And this acquisition is in the oil & gas space. As you are fully aware in the US market there is significant opportunity in the oil & gas space. And we currently are not able to participate in that because our business in the US is limited to consulting and engineering services. We do need a business that can help us to build the infrastructure that is required in the oil & gas space, and this is what we are targeting, a company that will give us an opportunity to participate in the infrastructure building in the oil & gas space. And if all goes well by the end of June this year we would have implemented that acquisition.

Our strategy is ultimately focussed at returning cash returns to shareholders. So there are a few value drivers that we are focussing on. Firstly strategy execution and delivery. And I don't want to go into the detail of all of these value drivers other than to say you can see the key considerations that we are focussing our efforts on as well as the timeline. The third point there refers to the close-out of the business in the Middle East, and you will see that we have scheduled that for the current financial year. And there will be a little bit of a tail in FY2019, not much from a cost point of view – there will really be very limited cost to be incurred at that time – but the Dubai Airport claim will only be determined and ruled on in November.

Mergers and acquisitions. The acquisition in the US is of real importance to us. We have scheduled that over 2018 and 2019 financial year, but as I said we are hopeful to conclude that by the end of June. Operational performance is of real significant importance to us. In our business in the contracting environment you cannot afford to have loss-making contracts because a loss-making contract will just erode the margin that you will be earning on five, ten or 20 other jobs. You cannot afford that. And I'm very pleased to say although we still have loss-making projects in the group it is significantly less compared to what we had in the past, maybe one or two as we speak. But I think we have made good progress. And I think it is commendable because we have achieved that in difficult market conditions, in a period where margins are tight, in a period where it's difficult to settle matters with clients and in a period where everybody is competing for the little work that is available out there. So within that environment to be able to say that we only have maybe one or two loss-making projects, I think that is commendable.

And then the cash returns to shareholders we have a dividend policy and we believe that dividends are important to shareholders. So what we would like to do is be in a position where we can apply a dividend policy every year, and be in a position to pay dividends and reinvest surplus cash in the business. We are quite bullish about the medium term. This is a slide showing a few articles that appeared very recently. And you will see there is reference to the commodity cycle, people talking about the Bank of China sees commodities in full bloom. China poised to top Japan as the world's biggest importer of liquefied natural gas. Shell finds the LNG glut to be absent. And the day before yesterday I read where a Shell executive was quoted and they are actually talking about an LNG shortage in the market. Nobody expected that the growth that is coming out of China would be as strong; the growth in LNG would be as strong as it is. Having said that it doesn't mean that the oil & gas platform will move into more favourable conditions over the next 12 months. I think it is 18 to 24 months out before we will see that benefit working through into the Oil & Gas Platform.

From a results point of view I think it is a solid set of results that we have reported. Revenue was marginally up. And when you look at our earnings, continuing HEPS, it is up whether you include or exclude the Middle East from the business. So excluding the Middle East we are actually looking at 72 cents a share excluding the Middle East. Including the Middle East it pulls us back to 55 cents. In the not too far future this drag on the group will no longer be there. So for people looking at Murray & Roberts the normalised figure for the first half is actually 72 cents a share, not the 55 cents which is still a function of the business in the Middle East. And I tried very hard but he auditors convinced me that the business in the Middle East needs to be reported in HEPS. It is not a discontinued operation. It's an abandoned operation so it has to be reported in HEPS. But we thought it would be good to just show the difference what the earnings would be including the Middle East and excluding the Middle East.

Attributable profit is up to R110 million. That comes off a loss of R60 million in the prior reporting period. The prior reporting period also included some once-off events. You will recall the VRP agreement that was entered into with the government. That was in December 2016. And that result was a cost charge of R175 million in the discontinued line. And at an attributable level that dropped us into the loss of R60 million. But in the current year we are pleased about the profit of R110 million. the order book is 10% down on the prior year but the net cash at R1.3 billion we can see we have maintained a really strong cash position.

This is a slide that we decided to include in the presentation. It just gives you a feel for the trends and the movements on the big ticket items in the income statement. So when you look at investments, investments for Murray & Roberts is the investment we have in the Bombela Concession Company. Comparing the two halves, the first half of this year and the first half of the prior year, it's green. It's an improvement. It comes from two areas. First of all the increase in our investment from 33% to 50%, but also we had an agreement between Bombela Concession Company and the Bombela Operating Company in terms of operating fees that had to be paid to the operator. And it was a good outcome for us and that also translated into an additional fair value adjustment.

The business in the Middle East is green, showing an improvement compared to the first half of 2017. As I said this is a significantly reduced loss compared to what we have reported in the first half of the prior year. Oil & Gas is flat. We maintained earnings around R100 million, earnings before interest and tax. We maintained it at that level. I said just now that we don't think that the upturn will demonstrate itself in the oil & gas sector in the next 18 to 24 months. So we are hopeful that for FY2019 that we will at least be able to maintain earnings at the level of the current financial year. Underground Mining is up. The order book is up, the earnings are up, market activity is up. We are very bullish about the opportunity that the Underground Mining Platform is presented with, not only in Sub-Saharan Africa, including Australasia as well as the Americas. Although a bit low there is an increase in the activity and opportunity for the Underground Mining Platform, and that is very good for us.

Power & Water is down. Power & Water is a platform that for very long has been very dependent on the Medupi and Kusile power stations and those two power stations will eventually be completed and our work will reduce as from next month. We've got the first big demobilisation of about 1,000 people starting next month. But it will run down and by December this year the majority of our work would have been completed on the project. But the reason the arrow is down is twofold. The electrical and instrumentation part of the business gave us a return, but earnings were down compared to the previous year. The previous financial year we had a close-out of the Husab project in Namibia and in the accounts we carried quite high provisions for risks that never materialised, and those provisions were released at the end of the Husab project. So E&I in the first six months of the prior year had a very good result which was not repeated in the current year, and as a platform it pulled the platform down.

Then we have a project, the CTFE project, which incurred a substantial loss in the first half of the year of R60 million. That loss will pull back in the second half. We are at a stage that the impact or the reasons that gave rise to the loss are being negotiated and are being discussed with the client. And I'm pretty sure that there will be a pullback in the second half of the year. But that commercial outcome hasn't been accounted for in the first half of the year. It isn't advanced sufficiently for us to treat it as income. The auditors wouldn't allow us to do that. So CTFE recorded a loss in the first half which together with the decrease in earnings for the electrical and instrumentation business that arrow is pointing downwards.

Interest, a green arrow up which means we paid less interest in the six months than in the comparative period in the prior year. And the main reason for that is you will recall we incurred substantial debt at the time that we acquired the minorities in Clough. And that debt has now been settled and fully paid by June last year. That debt was fully repaid and that gave rise to a reduction in the interest charge. Taxation, the arrow pointing up. It doesn't mean that we have paid less tax. We have actually paid more tax as you will see in the income statement. But the reason the arrow is pointing up is the tax rate, the percentage has gone down. And the reason that happened was in the prior year we had substantial losses in the Middle East. Those losses were incurred in a non-tax jurisdiction and for that reason the percentage was impacted in the prior reporting period relative to where we are today.

Continuing operations then we've done better. We've done better for two reasons. The mining business did well, and in the Middle East we had reduced loss. And discontinued operations reduced loss because of the VRP numbers that were not repeated in the past six months. And attributable profit up 283% from the loss of R60 million to the profit of R110 million.

This is the last slide before I hand over to Daniel to take you through the financials in a lot more detail. Safety in our business is very, very important and very significant in our lives. There is a lot of emphasis that goes into the way in which we perform our work and the way in which we deliver our projects on site. And we believe in people who work in our organisation going home every day without any harm. But unfortunately we have had the fatal incident in the first half. Henry Munati, one of our employees working in Indonesia, was overcome in an underground mining operation by blasting fumes and unfortunately lost his life. So it's a very sad event and our condolences once again to the family.

As far as the lost time injury frequency rate is concerned it looks as if there has been a significant deterioration, moving from 0.52 to 1.19. I need to explain that a little bit. the lost time injury frequency rate is an incident rate that is expressed per million man-hours. What we've decided to do given where we are in the Middle East is to exclude the statistics in the Middle East from the lost time injury frequency rate calculation. That business normally contributed a very high number of hours with no incidents. And with not having those hours in the calculation anymore the lost time injury frequency rate deteriorated. But having said that our performance in the Underground Mining business, although still commendable even if you were to benchmark that with any other player in the mining industry – you will find it to be one of the best performances that you can find – on one of our projects we had a less than favourable result from a safety point of view. Too many slips and falls, hand injuries. That project came to an end in December last year so we are hopeful that in the second half of the financial year, Orrie – no pressure – that we will report a significant improvement in the safety performance.

Thank you very much. I would like to hand over to Daniel. And as Daniel prepares for the presentation what you will see on this slide is four projects that were undertaken by Clough. Now, why I want to draw your focus to this is you will see that two of the projects are not in the LNG space or the oil & gas space. This project, the Boddington gold mine for Newmont, was undertaken by Clough. And this is for the Water Corporation in Western Australia, a project in Kalgoorlie. So although the primary market is oil & gas it doesn't mean that the group or the platform doesn't have the capacity or the capability to undertake work in complementary markets. And currently complementary markets are a big focus for the oil & gas platform to grow its order book. Thank you Daniel. Over to you.

Daniël Grobler
Almost stole my thunder there. What I would like to do is start you with a short video that shows the economic environment that we found ourselves in in the first six months during the year. so what you will see in the first few slides is all the challenges that we faced in our results from the economic environment that we played in during this first six months. So as we go into the second half of the clip the sentiment during the period changed quite a lot in terms of metals and minerals, the oil price and a general economic environment within South Africa. And that was very prevalent in our [unclear]. So if you look at the final slide I always get a bit of a shiver from the impact on the people in the room. When I looked at it I saw a few more shivers in the room, so I'm sure I wasn't the only one there.

On the statement of financial performance we start with revenue. Revenue was up by R1.2 billion. And we will see the reason for revenue being up once we get to the segmental slides. That was primarily driven by the Oil & Gas platform. To go to earnings before interest and tax if we exclude the Middle East the prior figure was sitting at R425 million. The prior year is sitting at R416 million. So the prior year figure included the profit that we realised in our Bombela Civils joint venture company. Once they reached a settlement on the Gautrain we released some of those provisions. So it was a one-off amount. So if you compare apples with apples there is actually a slight increase from the prior year to the current year. The Middle East as Henry quite rightly said there were no further project losses. However we do show a loss of R67 million. R33 million of the R67 million relates to overheads. It relates to legal fees that we incurred in the period. And to fund the losses in the Middle East we also had a Rand based loan into the company and we recorded a R34 million loss on the foreign exchange rate in that Rand denominated loan. So the amount we expect in the second half for the Middle East is very easy. You take the legal fees and the overheads for the first six months, you extrapolate that, and that becomes your 12 month figure.

Net interest came down slightly. Tax is more or less in line. Henry talked about tax. Equity accounted investments, that is our investment in the Bombela Operating Company which operates the Bombela system. If we drop to discontinued operations these are figures post tax and the impact on the group. So if you look at the prior year figure of R178 million that included the VRP charge of R170 million which Henry referred to. In the current year figure we've got a significant loss in Genrec. Genrec has got a cost base and it is supposed to generate margins to cover that overhead, and that hasn't happened. So Genrec in itself on an EBIT level generated a R90 million loss for the period. If you residualise that amount the more prudent view that we have taken on the retained assets and liabilities from the sale of the Infrastructure & Building platform.

If we move on to our statement of financial performance Henry said we've got quite a strong balance sheet. I agree with Henry. There are some key elements I'm going to talk to. The first movement was on the non-current assets. You can see compared to prior year it went to a figure of R3.291 billion, about R300 million. We acquired the additional 17% share in the Bombela Concession Company. That cost us R357 million. And we can see the corresponding entry in the interest-bearing and short-term debt which also went up the same amount. And we are busy with a process with one of our banks to move it from short-term debt to long-term debt for obvious reasons.

The second element that I want to point out is the shareholders' equity. So shareholders' equity came down despite our R110 million attributable profit that we recorded. If you take our opening balance sheet plus our R110 million profit, you deduct our R194 million dividend that we paid, and we deduct R160 million for foreign currency translation reserves it's a very easy calculation to get to for shareholders' equity. The last one which Henry touched on was the net cash, and that is sitting at R1.3 billion last year it was sitting at R1.8 billion. I think I've given the two figures that brought it down, the R357 million Bombela Concession acquisition that we made as well as the dividend that we paid. But compared to other companies within the industry the time we went through in terms of difficult commodity cycles we feel it is a very strong net cash position to be in. And that brings us to a 15% gross gearing for the group which is still healthy and well below our [unclear].

If we go to the segmental reporting, the Oil & Gas platform is made up of a number of divisions. The first division is engineering. Through the year it has been a very steady performance. It is always going to be a low revenue base but a high margin earning business. And it has continued focus. I think Peter's engineering department is running flat out at the moment. They have got to hire in people. It is a business that has been contributing towards the group earnings. Construction and fabrication, if you rewind the clock three or four years that used to be generating between R5 billion and R10 billion in terms of revenue and that has dropped off significantly. There are only two projects being executed, and the margins generated by those projects are not sufficient to cover the attributable earnings in the business for that part of the division. If you look at Global Marine we are in a position where we have submitted a very large bid, a multi-billion Rand bid which is currently under adjudication. If we do not get that bid we will have to take some serious decisions as to how we streamline that and make that part of Clough and take a different route as to where we go with Global Marine.

Brownfields and commissioning, that is what has been effectively carrying the business for the past two or three years. You will see the prior year figure has got a lower revenue base but a higher margin. That was the Wheatstone hook-up and commissioning job. There was a bit of a tail into the new financial year, but in the new financial year we secured a contract called the Ichthys contract for a company called Inpex. They are making it very difficult in Australia to [unclear]. But the Ichthys project was secured at a very competitive margin and it's lower than the margins that we've seen previously communicated in the market. So the Clough overhead is a very strong focus for us. The blended overhead is a different figure to what you see there. Peter and his team have done very well in taking out A$7.5 million or A$8 million of overhead in this financial year and they've got a very strong target for the next financial year. So overheads and order books always [unclear] and there is a very strong focus on overhead within that platform.

If I go to Underground Mining, the mining platform delivered a very good performance. If we look at Africa, Africa's revenue is relatively in line with what it was in the prior year. But the improvement in margin is really an operational improvement. There are two contracts where we were struggling, Booysendal and Venetia, both very big contracts. And in the current financial year the teams have done extremely well to turn a big ship like that, make it profitable again, and have a happy client and a successful contract going forward. The Americas and Australia both had a very solid performance. It is very seldom in the mining industry contracting that you see margins of 8% or 11%. Very pleasing for them. I think Orrie says it was the best year they've had from inception up until now. So they are doing really well. But in both those businesses the order book has grown. So we have seen the amount of tender activity in all regions including the Americas that was being pulled back. We have just heard this morning from Orrie – and he is still gloating about it – that they have won probably another R2 billion worth of work in the past 24 hours. And there is probably still about R8 billion worth of work under adjudication in that market. So from a Murray & Roberts point of view that is one of our strongest contributors with a very strong platform, great leadership in the platform, a strong international footprint, and it's a platform that we expect quite a lot of in the next few years.

If we go on to Power & Water you remember in the previous presentation we started breaking up Power & Water into the various divisions. So these divisions all generated profit and this profit has to accumulate and contribute to your corporate overheads. I will maybe start off with the total order book for the year. The total order book for the year came down from a figure of R5.7 billion to R2.7 billion. And that's purely as a result of the power programme coming to an end. So the biggest challenge for this platform is to find replacement work for the Medupi and Kusile power programme. You will see if you look at the reporting the power sector, which includes your Medupi and Kusile contracts but also other power contracts, performed well in the current year with a margin of 6%. In the prior year they had a margin of 4% but they had another power project called WFGD which recorded a loss, and that's why it brought down the prior year. But the power work is very tough to replace in the existing markets we're looking in. we're currently expanding our vision as to where we would like to work into distribution, into maintenance and various other aspects within power as we don't see Khanyisa and Thabametsi coming to the market in the next six to 12 months.

If we look at water, water is a great business. We bought Aquamarine a while ago. That business is doing very well. But the profit generated from our water business at the moment is so small it's not enough to lift the profit needle for this platform. We have got other technologies within the water division. We partnered with a company called Organica within waste water treatment. We've got a demo plant that we've just put up that is in commission as we speak. And if you get to sell those new, modernised types of plants within the South African environment that platform could start to make significant contributions going forward into the future. But at the moment it is not lifting the profit needle, but the platform for the year gave a relatively good performance, R51 million EBIT contribution versus R66 million. It's another platform where Steve and his team are having a hard look in terms of a sustainable overhead structure past the Medupi and Kusile projects being out of the system.

If we then go to Bombela and the Middle East, last year I started crying when we got to this slide. This year it is a lot easier. In Bombela we've got two entities. One is the Bombela Concession Company. The other is the Bombela Civils Joint Venture. This year we only recorded a fair value adjustment for the Bombela Concession Company and you will see the value is R119 million. In the prior year the fair value adjustment for the Concession Company was R117 million. And I talked about the provision release in the Civils Joint Venture Company of R54 million which will not be repeated in future. I'm not going to talk about the Middle East's prior year losses. I've talked about the current year Middle East loss that we made of R67 million which is overheads, legal fees as well as foreign translation reserves.

If we get to a platform contribution we've talked about the three platforms, being Oil & Gas, Underground Mining and Power & Water. Now, our investment in Bombela doesn't drive any revenues so you won't see it in the revenue graph. But in the other graph you will see a very consistent contribution from all platforms. We expect in the new year Power & Water as the power programme comes down it is going to struggle. The investment in Bombela Civils Joint Venture is a very steady investment. In line with growth forecasts and analyst forecasts we expect our mining division to grow quite rapidly. And Peter and his team are setting their ambitious targets for themselves to either meet the expectations or see where they go with the business once they enter those complementary markets that Henry talked about.

To talk about geographic diversification what we've seen here is a truly multinational business. South Africa in terms of revenue contributes 36%. In terms of profit it contributes 47%. That percentage over the next year or two years is expected to come down probably in the range of 30% South Africa to 25% South Africa. Why is that going to decrease? The profit that we're earning on the Medupi and Kusile contract is coming to an end. We have talked about the acquisition in Oil & Gas in the US market which will start to contribute. And our mining businesses are going to grow and start contributing a lot more to the bottom line profit for the company.

If we look at the project life cycle distribution curve we start with planning and engineering, it goes into construction, it then goes into commissioning, it then goes into operation, maintenance and refurbishment. If we take that value of each of those segments in the project lifecycle always the biggest value will be in construction. So it doesn't matter how far we diversify into these markets construction will always be a big player in the industry. It is very important that we say that it's not construction as we have just sold. This is construction on projects in the energy market, in the mining market, in the power market, power plants. And we have got the philosophy that we're trying to grow the operations and commissioning side because those items bring more sustainable income. But it's a very difficult opportunity-based process. If the opportunity comes up then you can start focussing on those opportunities. And that's it, Henry.

Henry Laas
Thank you Daniel. I am always very proud of Daniel. For those of you who do not know he played Sevens for South Africa a couple of years ago. He didn't turn professional. He decided to become a CA and that's why he is with us. But he played Sevens for South Africa a couple of years ago. And on Saturday as you know we've got a huge rugby match on in South Arica with the Lions playing the Bulls at Loftus, and both teams are playing very well. Daniel, I think you will be there on Saturday. I don't want to spend too much time talking to the order book. I think you are all familiar with where the order book is at the level of R22 billion. And admittedly it is low. It is lower than what we would like to see. But the Oil & Gas business is still not presenting the opportunity that is

really necessary for it to contribute more significantly. Power & Water I think we have also touched on and the Middle East will disappear from the order book as we complete these projects at the end of June.

Having said that the one thing that we can emphasise is that the quality of the order book is good. We are not a company that we go to extremes to secure orders just to grow an order book and to have revenue to report and have the risk of losing money on a project. Our mission is to make a profit on each and every project that we build. And for that reason through the diligence that we apply at the tender stage we consider all the risks and we make sure that we don't do any opportunities that can bring problems in terms of losses into the future. So the order book is low, but it is of a very good quality. The geographic and time distribution, you are familiar with this slide. We normally present it in this way. You will still see that 54% of the order book is in the SADC region and 46% of the order book is international. Now, in prior reporting periods the Oil & Gas platform had a huge order book, R10 billion, and it is now down to R3 billion. So that's the reason for this. And the Underground Mining business is 61%. As I said earlier on the growth that we see in this market is not only in Australia and the Americas but also in the SADC region. So the business in South Africa and into Africa – if I say Africa it's Zambia – is doing reasonably well. And Power & Water as you know is a SADC business. They don't undertaken work internationally. And for that reason we have the split 54% to 46%.

As far as the time distribution is concerned I think that is also an important statistic. In the current financial year 2018 R7.4 billion of that R22 billion order book will be utilised in the remainder of this financial year. R6 billion in 2019 and R8.7 billion in 2020. These figures are already outdated because this morning we got the good news of an extra R1.5 billion of value which will report in the 2019 financial year. And what we will try to achieve by June is to at least be in a position that the 2019 order book value should be about R15 billion. That would be a target for us. So we've got a bit of a challenge ahead of ourselves but we feel confident that we can meet that. And as far as the Oil & Gas platform is concerned the difficulty we have is there are no single big value, long-term projects that find their way into the order book. So the order book may not be there, but we win and execute work within the financial year. so you don't have an order book that builds up on a construction project as an example, a piece of infrastructure whether in the LNG space or in the marine space. It will boost your order book and you will run that order book down on a single opportunity over a three to five year period. There are opportunities that we win and execute in the Oil & Gas platform that never actually appear in the order book at the time that we report our results at the six monthly intervals.

We put a lot of time into analysing our pipeline. I think the important point to understand is what we capture in our project pipeline is not a dump of project information from the internet. Each and every Rand that is recorded in the pipeline is backed up by a project that is identified and a project that we think we would like to pursue and a project that we would like to play a part in come the day that that is executed. So this is just a subset of all the opportunity that is out in the market. And the subset represents opportunities that we are targeting and that we think we can play a part in the implementation of. Near orders are orders which we have secured but we haven't signed the agreements yet. So financial and commercial close has not been achieved. You can see that has gone up from R7 billion to R10.7 billion. But it is all in the underground mining space. And this R1.5 billion that we have secured this morning I think is a move out of near orders. One near order and one category one. So there was a category one which came through and the other was a near order which came through. Category one has gone up to R47 billion and category two has gone up to R147 billion. That is what I said right at the beginning at one of the earlier slides. This offers an indication that there are more projects being tendered and there are more opportunities coming to market compared to what we've seen in the past. It doesn't mean that this will translate into revenue and into profit in the next 12 months. I think part of it will, but I think you're looking at more like a two year horizon before things will really start to light up for Murray & Roberts as a group.

I've included a few slides on platform outlook. I don't want to go through it in detail. You can read that after the presentation. But I think in a nutshell Oil & Gas is still finding itself in a difficult market. Wheatstone and Ichthys have contributed significantly to earnings over the past two financial years. Moving into the new financial year those projects will be completed. And there is a lot of emphasis on filling that gap by securing opportunity in complementary markets. We've done some work with Peter and his team a couple of weeks ago and we think that there is sufficient opportunity for us to at least maintain earnings in the 2019 financial year at the level that we're targeting for the current financial year. The Underground Mining business is doing very well. I think we are uniquely positioned as an organisation. There are many competitors in the different regions where we perform our services. But if I look at where Murray & Roberts is positioned and where the opportunities are presenting themselves I think we are really finding ourselves in the sweet spot and this business will do very well. Orrie unfortunately is retiring at the end of June, so Orrie won't get the glory for the record profits of 2019 and 2020. It will be your successor.

The Power & Water platform is another platform which is finding itself in a similar space as Oil & Gas. The order book is under pressure. In South Africa there is no replacement work for Medupi and Kusile. The renewable programme is slow at this stage. Thabametsi and Khanyisa are slow at this stage. So there is nothing of real significance that is going to replace Medupi and Kusile. And for that reason as Daniel has mentioned Steve and his team are going to a concerted effort to align our cost base to the opportunity in the market so that we can still report a reasonable level of earnings in the new financial year. Investments as you know is Bombela which is doing well.

So when you sit in a presentation like this and you get bombarded with a lot of information and a lot of detail you have to ask yourself what are the key presentation takeaways? What is it you take with you when you leave this room? I think the first point is the realisation that Murray& Roberts is a different organisation to what we've been in the past. We are a multinational engineering and construction group. We are focussed on these three target market sectors or primary market sectors that I've spoken about. We are well positioned for growth. Once the opportunity presents itself in oil & gas and in power & water we are well positioned to benefit from that opportunity. The order book pipeline or the project pipeline is substantial. You're looking at R575 billion. That's a big number. It is only a subset of the opportunities that are available out there. And these are the opportunities that we are targeting. But the big unknown is when these opportunities will become real projects, especially the category three opportunities. The big value is in category three. There is uncertainty about when those opportunities will move into category one and eventually into near orders.

We have a robust balance sheet. I don't want to say too much more about it. You understand that we need to succeed in the acquisition space. And we've got a balance sheet that will support us in that journey. Trading conditions in the underground mining business have improved. That cycle has turned. I think we can say that without a doubt. There is no debate. Our mining business is moving into a period of growth. The low order book value is of concern in Oil & Gas and a concern in Power & Water. Acquisitions are key and engineered excellence for us is not negotiable. And part of that is the awareness that you have to adjust your cost structures to align with market circumstances. Especially in Power & Water and Oil & Gas as we speak our teams are acutely aware of what needs to be done to in the new financial year report earnings that will be acceptable to the group as a whole. Ladies and gentlemen, that brings me to the end of the presentation. Ed, if you could facilitate the Q&A session please.

Ed Jardim
Henry, Daniel, thank you very much. I think just a reminder to those on the webcast and the call; you can ask questions on those mediums as well. But let's perhaps start in the room. Any questions for Henry and Daniel. We do have microphones available so please wait for that before asking your question for those on the webcast and on the call. Anybody in the room for questions? Mark.

Mark Ter Mors
Mark Ter Mors from SBG. Could you comment further on the potential complementary projects that may already be in category one or even near orders for the Oil & Gas business? I saw the nice photographs on the presentation. It would be nice to get an indication of what type of projects and where they could be located.

Henry Laas
I'm going to ask Peter to answer that question. But for us it is in the metals and minerals space in Australia and it is in the infrastructure space in Australia. These are the two main growth markets that we see that will present opportunity as complementary markets for us in the medium term. And the information that we have is that the combined investment in these two sectors over the next ten year period will exceed the investment that was made in the LNG space in the past decade. Peter, if you could just give more colour on specific opportunities.

Peter Bennett

Sure. I think to Henry's point and the photographs that we showed of some of those projects that Clough has been involved with, these aren't new markets. We have been historically part of these developments. So in the mining and minerals space a lot of the above ground mechanical construction sorts of projects we have long been associated with. So Rio Tinto, BHP and FMG domestically are doing quite a lot of work in that space now. We are on the BHP construction panel now and have some very active tenders with them. The same is true for FMG and Rio we have had some projects that are coming up as well, all around that space. They are looking to not necessarily increase their overall capacity as new organisations but they do need to open new mines to maintain their existing capacity. So a lot of conveyers, stackers, rail loading facilities. Also some of the utilities. Water treatment plants for some of those mine sites, power plants for some of those mine sites.

In the infrastructure space predominantly in Western Australia. We had talked previously about the work around the Perth Freight Link project. That one unfortunately didn't survive the change of government that occurred there at the end of last year. There is a new project there that we are pursuing. I think it is probably in the medium term in terms of when it is likely to progress to a contract award. Certainly in WA we are pursuing that. In New South Wales as Henry said the forecast there is $140 billion in the next ten years and we are actively pursuing that market. We have prequalified on some projects that are coming out to tender. We have opened up an office in Sydney. And they range from bridge projects, which is one that Clough has a good track record in particularly in WA, up to an including some large hydroelectric projects that we will look at in conjunction with the underground mining sector.

Henry Laas
Thank you Peter.

Ed Jardim
Mark, does that answer your question? The next question for Henry and Daniel. No further questions.

Henry Laas
Thank you very much Ed. Ladies and gentlemen, thank you very much.

END OF TRANSCRIPT