Conference call transcript

29 August 2019

ANNUAL RESULTS PRESENTATION

Ed Jardim

Good afternoon ladies and gentlemen. Welcome to the Murray & Roberts annual results for the year ended 30 June 2019. A warm welcome to all of our viewers on the webcast as well as all the callers on the web call. Just a safety moment before we get started. In the unlikely event of an emergency you've got two exits off of this floor. The first is to my left, left again towards where the bathrooms are. There is an emergency evacuation door there. Break the little switch that's there. It will release the door. Please make your way down to the ground floor, out and around the building to the public parking space across from the building. That's the emergency assembly point. Your second evacuation option off of this floor is once again out these doors to my left towards the lift lobby. There is a set of stairs on either side of the lift. Please make your way down those stairs towards the ground floor, out the main entrance where you came through this morning and across the road to the public parking space. That's the emergency assembly point. We do not have an emergency drills planned for today, so if there is an alarm please treat it as real. Thank you very much. I'd like to hand over to Henry.

Henry Laas

Thank you Ed. Good afternoon ladies and gentlemen and welcome to our results presentation. A special word of welcome to our Chairman, Suresh Kana. Suresh is also Chairman of the Independent Board that was constituted to deal with the ATON matter. Welcome, Suresh. The Chairperson of the Audit Committee I guess will join us a bit later. I'm not sure whether she's caught up in traffic. Diane Radley. There are quite a few bankers in the room. This time around we're not here to borrow money from you. A couple of years ago when Murray & Roberts had quite a difficult balance sheet we couldn't get bankers to attend our results presentation. Now that we've got a strong balance sheet we have a lot of bankers in the room. So thank you for that and welcome.

I will briefly talk to the salient features of the past year's results and then I would like to elaborate a bit more about our strategy, how that is unfolding and the significant increase that we've recorded in our order book that we're very pleased about. I will then hand over to Daniël who will take you a little bit deeper into the results, and I will wrap up with a status report on the ATON process and finally key presentation take-aways. The revenue for the year was slightly down on last year. However, we managed to report quite a strong growth in attributable profit, although continuing headline earnings per share were slightly down. That is as a consequence of the record performance by the Underground Mining platform. We had a difficult year in Oil & Gas and in Power & Water. And for discontinued operations there is a significant reduction in the loss that was recorded for discontinued operations. So all in all a very good result.

You will see that we make a comment about the Middle East saying that all our construction work in the Middle East has now been completed and we intend to move those operations into discontinued as from 1st July this year. The order book is R46.8 billion. That is up 55% on where it was June last year. That is a significant increase in the order book. And near orders are R14.4 billion. And post year-end R10 billion of that R14.4 billion moved into the order book. So if you were to ask me what is our order book today I would say to you it is approaching close to R60 billion. We are very pleased about that. The other factor that is important to note is that this order book includes a number of projects that cover a number of years. So there are multi-year contracts. The nice thing about it is that it gives us a bit of runway into the future. So each of these multi-year projects is a layer building a revenue stream that we can then supplement with shorter duration projects as we secure those. So we are very pleased with the order book of R46.8 billion.

Cash net of debt of R1.8 billion is marginally down on last year but still a very strong cash position. And as you will hear later on in Daniël's presentation with all the work that we've secured we have also had some advance payments on projects moving into our business. So there's R1 billion of cash that we received as advance payments on projects. But you also need to understand that in the context of the investments that we've made through our acquisitions in the past year. And that was R0.8 billion. So the two almost net each other off.

A dividend of 55 cents per share is up on the 50 cents of last year. The board considered our dividend policy and decided to change the policy slightly. So we would like to be in a position to pay an annual dividend every year, but a stable dividend. In other words, not a dividend that is linked to earnings so that you work on an earnings multiple. And that is because of the cyclical nature of our business. But rather maintain a stable dividend, and every year the board will consider CPI, market conditions, strategic positioning of the group and the balance sheet of the group when they decide on a dividend for the year. But the idea is to maintain a stable dividend as opposed to a dividend which is based on a multiple of earnings.

Our lost-time injury frequency rate improved to 0.71. That is based on a million man-hours worked. And I can give you the assurance that that is really an outstanding performance. And what we're also very pleased about is we have concluded the past financial year without recording any fatal incidents. And that is the first time in the history of Murray & Roberts. Our HSE executive went back into the records as far as he could get statistics and this is the first year that Murray & Roberts recorded a fatal-free year, and we are very pleased about that. It came with hard work and our platform Chief Executive Officers, Mike da Costa responsible for Underground Mining, Peter Bennett responsible for Oil & Gas, and Steve Harrison for Power & Water, I think they've done a fantastic job. We've got at any time more than 100 projects under construction all over the world. And to have achieved this result I think is really commendable and I want to thank the platform CEOs for the great work that they've done in that space.

We've spoken a lot about the new strategic future of Murray & Roberts over the past couple of years, and we are pleased to say that the implementation of the strategy is starting to show strong delivery. We are positioning ourselves as a specialist provider of engineering and construction services to the natural resources market sectors. So that is our main aim. So we are very pleased with the delivery on the implementation side of this strategy. The fact that the order book has increased to the levels that I've mentioned earlier gives us a lot of confidence that we are starting to see the momentum of this strategy in action translating into an increase in the order book.

I think what I am most personally pleased about is the prospects for improvement in earnings or operational performance. Those prospects are encouraging, obviously supported by the fantastic order book that we've managed to build in the group. I will tell you a bit more about the order book later on, but one thing I would like to say at this stage is that this order book is a quality order book. The previous all-time high was in 2011. It was R55 billion. I know time value of money you need to estimate if you want to really compare it with what we're reporting today, but previously that order book included value still on many projects in the Middle East, and that was a sad experience for us in the Middle East. So we had value in that order book that didn't translate into profit. And I believe that the quality of this order book, this R46.8 billion, is much better than what we had previously in the group.

The Underground Mining platform when I refer to the strategic position of this platform I would say the strategy has reached a mature position. I mean that the positioning that we have from a geographic point of view is complete in the sense that we are in all the geographic regions. Where we need to be where the mining activity is taking place we are there. And in the project value chain we're providing services across the project value chain. And that is what we try to achieve in all of our three platforms, but I think Underground Mining is probably the furthest advanced of the three platforms in that respect.

I just want to take you through our international positioning. If we start off in Canada, Cementation Canada operates out of North Bay, Canada. And we've been working I think since about 1997 out of North Bay. In Vancouver Merit Consultants is a small consulting firm that operates out of Vancouver. In Salt Lake City in Utah Cementation USA and Cementation Above Ground. The AG is for Cementation Above Ground. That's not above ground mining. It's above ground infrastructure, conveyer systems, that sort of thing. Terra Nova Technologies is in Santee, just adjacent to San Diego in California. It is a company that we acquired in the past financial year and we believe it is a fantastic acquisition. I will tell you a bit more about it just now. In Africa we've got Cementation in Johannesburg, in Kitwe and Accra in Gahan. If we move on to Australia, Perth and Kalgoorlie is where we are based. And in Mongolia, Ulaanbaatar, which is the capital of Mongolia. We are based there undertaking the work on the Oyu Tolgoi project for Rio Tinto.

Our market focus in Underground Mining is a global focus. Globally we focus on underground mining services in the metals and minerals market. Market conditions have been reasonably good over the past couple of years and we benefitted from the capital expenditure which came through from mining houses. But we do expect over the next three years that that capital expenditure will start to level off. Our order book maintained at about R22.8 billion, marginally up on what it was last year. A strong order book. About R100 million of cash. And then the acquisition, the Terra Nova acquisition in the US. I think it was about $38 million. It is a company that specialises in logistics solutions for underground and open cast mines. It is about crusher systems. It is about conveyer systems, stacker reclaimers, that sort of thing. And for us it's not that we acquired a company that was provided exactly the same services that we previously had in the group. So this is an addition to the service offering we have in the underground mining space. So it gives us a new source of revenue and a source of profit different to what we had previously.

In South Africa we've established a 49% joint venture which is called the Boipelo Joint Venture. And this business is aimed at providing a contract mining service to the coal mining sector in South Africa. We were not able to provide that service previously. We did not have that capability. We have established that now. We have got quite a significant project under execution and the second project is lined up. Hopefully we will be able to secure that within the next quarter or so. We are very pleased also with that progress that we've made to enter the coal mining sector from a contract mining point of view. There was a question that was asked by one of the fund managers, not today but outside of the meeting. And you will recall that we are targeting to have in our mining portfolio about 50% of our revenue and earnings coming from contract mining projects which are contracts of long duration where we actually mine ore on behalf of clients. And Mike just confirmed a statistic before we came into this meeting. Mike has said we're at about 45% now. 45% of that R22.8 billion order book for Underground Mining is on contract mining type projects.

And then finally we made a 30% investment in a company called Insig Technologies. This is a company that specialises in automation technology. The objective with that is to be in a position that we can automate more of our processes underground, that we can remove more and more people from the work face. And through that we intend to achieve an improvement in our safety performance but also in our productivity and ultimately in our competitiveness. We are in a position today that we are able to operate an underground mine on a fully automated basis. All the equipment, all the fans, all the pumps can be automated and we can run that from a control room. We don't have a mine yet which is fully automated, but we've got the capability if we have a willing client to work with us we can put it to test. Is that correct, Mike? So it is good progress, and the intent is once these tests have been conducted in Australia we will be able to roll that out to other parts of the world. The Underground Mining platform as I said it's a mature strategy. It is probably the most advanced of the three platforms. And we are very happy with the positioning of this business. You will see when we get to the results an absolutely outstanding result for the past financial year delivered by this business.

There are a few points where we comment on the prospects for the Underground Mining platform. I think the important take-away is that we had a good run over the past few years as capital expenditure by the mining clients started to increase. Not so many new greenfields mines, but quite a lot of expenditure in the brownfields space on existing operating mines. We do expect that to taper off in about two to three years' time. However, we are also confident that we will be able to maintain our earnings at the current levels that we've reported last year. So a very good position for the Underground Mining platform.

Then I'll move on to Oil & Gas. I think Oil & Gas is very quickly catching up with the Underground Mining platform from a strategic maturity point of view. Although the results in the past financial year from an earnings point of view was not a good result, from a strategic point of view what was achieved in the Oil & Gas platform is very significant. And essentially two things. The acquisition in the USA of Saulsbury's EPC division which we then rebranded as Clough USA gave us a significant presence in the US market. And that's a positioning that we were trying to achieve for quite a number of years and we were not able to achieve that. But we have now made this acquisition. It was not a material acquisition, I think about $8.5 million or in that region. And shortly after the acquisition and after the year end this business secured a $620 million EPC project in the petrochemicals space. So it's not in the order book. It was in the near orders. And as I said to you R10 billion of that R14.4 billion near orders moved into the order book post year end, and this project is one of them. We are very pleased from a strategic point of view with what we have achieved through this acquisition.

When you look at the globe and you start off in Australia Clough essentially operates out of Perth, Brisbane and Sydney. We also have an office in Adelaide, a wholly-owned subsidiary called e2o. We have an office in Port Moresby in Papua New Guinea. The Clough Coens joint venture operates out of Busan in South Korea. We've got Booth Welsh there in Scotland. And then as far as the Americas are concerned a company in Calgary called Enercore which is essentially an engineering services business. But in Texas itself in Houston, CH-IV, a company which we've had in our portfolio for a number of years, and now Clough USA, the old Saulsbury business. I don't think that it is really necessary for us… Welcome, Diane. I did make mention at the beginning that the Chairlady of the Audit Committee would also be joining us. So welcome. We are very pleased with where we are positioned globally and I don't think there is any need at this stage for us to really actively seek another major place to work from. I think we are well positioned where we are today from a geographic point of view. So for me that was a significant achievement in the past financial year.

The market focus for this platform globally we're focussing on the LNG market. That includes Australasia. But in Australasia we're also diversifying into metals and minerals and infrastructure type of work clearly because the LNG opportunity in Australia is not what it was a decade ago. So we had to diversify into other market sectors as well. And that diversification strategy has delivered significant results. The increase in the group's order book to this R46.8 billion is essentially as a consequence of the increase that was recorded in the Oil & Gas platform order book. And that increase was achieved in that infrastructure and metals and minerals space. But having said that there are early signs of the LNG market coming back in Australia. There's a project that we've tendered on of about $400 million and we should know within the next month or two whether we've been successful or not. And if we secure that it will be the first LNG project we've executed for quite a number of years in Australia. So that's a very positive development.

The order book as I said is R23.1 billion. We are very proud about what we achieved. Subsequent awards other than that EPC project, the one in Houston, we have also secured for the first time in many years a marine project in North America.

It's in joint venture with another company. And our share of that joint venture is R400 million. So it's not a significantly large project, but it's significant in the context of the first time in many years that we've actually landed a marine project. And Peter confirmed earlier on for Clough it is the first time actually that they do a marine project outside of Australasia. To have that in North America we think is strategically a significant achievement. This project in the USA worth R9.4 billion is not a project that will be delivered over five years or ten years. That project will be built in two and a half years' time. It is going to be quite an aggressive revenue burn. I think it will start in the second half of this financial year and two and a half years from now this project will be complete. And the challenge for Peter and his team is to really make sure that we deliver this project well, because the Clough brand is now established in that region in Houston in the petrochemicals space. We need to get something on our CV of a really successful project delivery, and this project that we've secured I think will be the project that will give us that opportunity.

Cash net of debt of R2.1 billion. The recent acquisition I've spoken about already. It is this business in Houston which was rebranded as Clough USA. So from a management point of view what Peter has done the businesses in America, in Canada and in North America for management purposes that has been pulled together under a very competent executive team with a Managing Director has been appointed into that business. And we are soon getting to the point that we have to do something similar in the Australasia region given the pace at which this order book is starting to grow. Strategically as I said Underground Mining is probably the furthest advanced of all the platforms, but Oil & Gas is starting to catch up and we're very pleased with that.

Not too much to say about this slide. I've covered most of the content on the previous slides. What I can say is there's a high degree of confidence that we will return to profitability in FY2020 and that we will grow profits thereafter. This morning we did the same presentation to staff and Peter stood up very confidently and said that's no problem. That's a walk in the park. So, Peter, I hope that you will be so brave to say that in this audience as well. But yes, the Oil & Gas platform had not such a good year from an earnings point of view, but strategically I think we've achieved a lot. The final bullet on that slide is significant. I will talk to that in a bit more detail when we talk about the order book. That is that there's a pipeline of R158.2 billion in category 1 projects. Category 1 is tenders that we have submitted or tenders that we are still working on. So it's not pie in the sky. It's not something that is two or three years out. It is active tenders in the market as we speak. But I will elaborate on it a bit later.

The Power & Water platform, where the other platforms have got a multinational focus or a global focus the Power & Water platform has got a Sub Saharan Africa focus. So it's not a global multinational business. It's a South Africa and Sub Sahara Africa business. And unfortunately we're suffering from a lack of investment in the power and water sector. And as a consequence of this, this business has to diversify into petrochemicals, metals and minerals as well as paper and pulp because there is not enough opportunity in power and water to ensure the sustainability of this business. Being focussed on Sub Saharan Africa you would not expect it to have offices all over the globe. So essentially it is Johannesburg, Cape Town and Maputo. We've got an office there as well lined up for the LNG opportunity in northern Mozambique.

The company OptiPower operates out of Cape Town. That's a recent acquisition. The effective date of that acquisition is actually 1st July, so just post year end. I can talk about the acquisition now. It's a company that specialises to deliver projects, overhead transmission lines on an EPC basis. And that is a subsector of the power market where we do see quite substantial growth potential not only in South Africa but also in Sub Saharan Africa. We undertook that acquisition effective 1st July. We've been struggling to get all the CPs in place in time, so we just couldn't make it before the year end. So it's effective 1st July, but it's all done and hopefully they are now properly set up to undertake EPC work in the transmission space.

Market conditions, there is still a lack of opportunity in the power market as well as the water sector. But substantial investment is expected in transmission and distribution and therefore the acquisition of OptiPower. The order book is R0.9 billion. It is down on what it was last year. And subsequent awards are the order book of OptiPower that moved into the group as part of the acquisition. So we had an order book of R0.9 billion at year end, but now with eh acquisition of OptiPower we're looking at R1.4 billion for the platform as a whole. Cash of R400 million. And then as I said as far as OptiPower is concerned we believe it's a good acquisition and that we will be able to grow that substantially. Is that correct, Steve? Are you sure? Thank you. Just a few observations. The fourth bullet from the top, the City of Cape Town has announced that it's going to invest about R14 billion on the water infrastructure. There are two tenders that are already in the market. The one tender we have submitted and we are working on the second tender. But outside of the Cape Town area there is actually very little happening. There is not too much investment happening in the water space, which is disappointing. The OptiPower acquisition has been a good development.

Overall this platform I believe has put all the right building blocks in place to position itself strategically to provide the services in the market which are in line which is in line with its capability and capacity. It is purely the fact that the market is just not big enough for us to really grow sustainably only in power and water. From an earnings point of view a small loss was recorded in the past year and we would be very glad that we can record a profit in this new financial year, but I think it is unlikely. But in the medium term the objective is to return it to profitability and then to grow the platform beyond that. A pipeline of R5.5 billion. Not a substantial pipeline, but R5.5 billion in category 1.

Order book. I said earlier on that the growth in the group's order book is predominantly in the Oil & Gas platform. You can see it from this graph. Mining is maintaining a very good order book. Power & Water is down to the levels that we've discussed earlier. And Middle East we will now drop from this slide. We had at the end of last year R100 million left in the order book in the Middle East. There is nothing left anymore. All the construction work is complete, and as I said the intention is to move it into discontinued operations from the 1st July.

A bit more of a breakdown on this order book. You will see 68% of that is in the international market; 32% is in the SADC region. But what is interesting when you look at this statistic over here is beyond 2021 R23 billion of the order book will be delivered after 2021. That is what I said earlier on. We've got an order book with multi-year projects in that order book. And that is nice because it gives us some visibility into the future. And as I said at the beginning of the presentation, it's like having one project providing one layer over a number of years and then another project which is a layer on top. And so you build your revenue stream. It will give you some visibility on what the business will be able to do going forward. So we're very pleased with the fact that we have multi-year contracts in this order book.

Now a bit more about this category 1. Category 1 is R200 billion. It is up significantly on the R63.8 billion we had at the end of last year. The order book I've spoken about and the near orders as well. Remember I said that R10 billion of that R14.4 billion already moved into the order book post year end. Category 1 is tenders that we are working on or tenders that have already been submitted. From a risk point of view we analyse many things in the group, and one of the things that we also analyse is the risk in the order book, our success rate with tenders. And in the past financial year, the 2019 financial year, we've achieved on a value basis 45% hit rate on all the tenders that we've submitted. I think there are two stories or two messages to take from this. We're not tendering each and every project that comes our way. We are selective on what we tender. And of the projects that we have tendered 45% on a value basis were awarded to Murray & Roberts.

That R200 billion of category 1 pipeline within the next six to 12 months we will know which of those projects have been awarded and who the successful bidder was. I can guarantee you part of that R200 billion will not be awarded. Clients may decide that they don't want to continue with the project. But if you assume that R150 million of that R200 million will be awarded, and if that success rate is maintained at 44% to 45% there is about R75 billion of orders in that category 1 pipeline that may be coming our way. We shouldn't play around with these statistics too much because we find ourselves in a bidding market. Your market share and your past success rate or hit rate on contracts is not always a good indicator of what the future will hold. Even today 95% if not more of projects are awarded to the lowest bidder. And if you're in a bidding market and you find somebody that comes in with a slightly more competitive bid than you on a project you may be losing a number of big projects and all of a sudden the market share will get distorted. But if we maintain what we've achieved in the past financial year there's a significant opportunity in this category 1 pipeline for us to grow our order book over the next six to12 months. I think that brings me to the point that I need to hand over to Daniël. Daniël has been fighting a terrible flu since Thursday last week. But he's a strong guy and he will survive, so don't worry too much about that.

Daniël Grobler

Thank you Henry. So if you see me falling down at any point in the presentation it is not to add a dramatic effect to any of the slides. It's just physical incapability. Before I move on with this slide, Henry made a comment to the staff this morning that it's the boring part of the presentation. But I can hear the iPads coming on and notebooks being opened, so this is to me, Henry, the meat of the presentation. What we got from the staff this morning is they went through Henry's part of the presentation, and forward looking it paints a very positive picture. We talk about the order book. We talk about the items that have been put in place in each of the platforms, and we're really optimistic going into the future on this business. But what we've got to do now is look at the rear view mirror.

I think I will do a stocktake of what has gone wrong and what has gone right. And despite what has happened throughout the year we still ended up with a very strong balance sheet. Just on a high level, Underground Mining had a superb performance, a record performance. I think the previous high, Henry, was R650 million in the group. Oil & Gas and Power & Water I must say were a disappointment to the group. They both had a profit forecasted. They came in with a loss. We will deal with that a bit later on. Investment is the investment in Bombela, still maintaining a very high yield of return. In the Middle East we made a slightly bigger loss when compared to prior year, but that was due to overheads as well as legal fees that we incurred. Interest is marginal. We said that the effective tax rate increased to 40%, but year on year there is a R1 million difference in the tax rate.

For the continuing operations even though we had a very good year in Underground Mining it wasn't enough to offset the losses in Oil & Gas as well as in Power & Water. The real kicker for the year when we get to attributable earnings is your discontinued operations. We will see on the following slide I will go through the details of that. When we look at EBIT, EBIT for the year came in for continuing operations of R791 million. In the prior year we had R884 million. The item I must emphasise in the prior year number is we had a profit on the disposal of our investment in the Bombela operating company. That project was R80 million and it's included in [unclear]. So despite the movement in all the platforms we came very close to the number that we had in the prior year where all the platforms made a profit.

If I go down to net interest it is slightly up compared to prior year. We had a higher debt profile. We will get to that. Taxation we can see R297 million versus R298 million. R297 million gives us an effective tax rate of 40%. In the prior year it was 36%. We will get into the details. Discontinued operations was a loss of R91 million. In the prior year it was a loss of R278 million and it mainly relates to Genrec where we managed to stem the losses as well as the recoverability of our retained assets and liabilities in the infrastructure and building sector. So overall attributable profit was R337 million compared to R267 million.

If we go to the Oil & Gas department, again we say it has been a disappointment to the group. We expected a R200 million profit. They came in with R100 million loss. Now, there's a reason to this. In the first half of the year they made a break even position. In the second half of the year the story in Clough is twofold. One is they effectively ran out of revenue. You need revenue to generate earnings to cover your profit. That didn't happen. There is a delay in contracts. And we can see that in the order book going forward. And they also had two loss-making projects in Alcoa and Bimha. Alcoa has come to an end. Bimha is coming to an end in the month of September. So those items should be behind us. But the pleasing item within Clough is the order book. And you will see it on the far right-hand side of R23.062 billion. I've got to put a temper on Henry's promise with Peter that the projects that they secured are going to take a while from book to burn and start earning a profit. So I think Clough is still in for a tough three to four month period, and from there on we'll see earnings growth at quite a rapid rate. One element we mentioned was marine. So we see zero revenue in marine. I was reprimanded this morning for saying we secured this project in North America and Clough's share of that project was R400 million. So I can't say anything beyond that. But we are seeing tenders coming to the market. About two months ago we reviewed another marine project, about a R1.2 billion project. So good profit for us and a good project for us to pursue.

Underground Mining we had a very good performance. As you will see in all three regions they really fired on all cylinders. The Americas and Australia basically doubled their earnings on prior year. Very encouraging. We can see the order book still sitting at R22 billion. This is the R22 billion in the prior year. What you will notice in Africa is earnings were maintained despite profit coming down. So it's the same with Clough. What the team does is they go through a project, they accrue for risk and they manage that risk. And when the project comes to an end there is a process with the client to try and eliminate as much of the risk as you have accrued for. And the team on that job and two other jobs have done extremely well to help us release some of those provisions, and that helped the 2019 results.

If we go to Power & Water Henry said I have to talk to this slide. Power is made up of the power programme, Medupi and Kusile, as well as in the prior year we had Morupule. So we can see the power element from a turnover point of view it came down from R4.1 billion to just over R2 billion. They've got an order book left for R419 million. That is purely Kusile. And that order book is expected to be burnt over the next 12 months, so that order book should drop to zero. Again as in all the other platforms they do accrue for risk. And as these risks come to fruition they manage the risk and are able to release the provisions as they go. Water we can see is a problem. It's a national problem. It's not a Murray & Roberts problem. We think we've got a very unique service offering in the market and we know that waste water treatment throughout the country is an issue. And as Henry said, we've seen two bids coming to the market in Cape Town, but there is a lot more to come and the water market potentially is significant. I heard a stat the other day. In the prior year Rand Water had a water budget and they spent 20% of their water budget for the entire year. It just shows you that there is something wrong in the backlog procurement tendering processes that is stopping that from coming to market. Overall the platform made a loss of R32 million compared to R134 million, but a huge disappointment to the group as well. So if we take the results, which was a swing of about R300 million, we take the R160 million to current earnings, and it could have been a very profitable year for Murray & Roberts.

If we go to Bombela and the Middle East we see Bombela still continuing strongly to the group. The figure in the current year is R306 million and the prior year was R277 million. Both years had significant once-off elements in them. I think the figure to use going forward would be R220 million on a prudent basis. And what we can say is in the Bombela investment the debt that we've incurred as a concession and as a JV will be paid off in 2023. So the dividend streams expected after 2023 are expected to become significantly more. In the Middle East we made a loss of R56 million. I expect that loss to be anywhere between R30 million and R50 million for the next two years as we go through our expenses and legal fees to try and resolve these projects. The projects have been completed. It is now process to go and collect the revenue. There is a chain of subcontractors that need to be paid and negotiated with, so we do think there is a bit of a tail for that. But I think

Graham was the wrong guy to ask. We've got to ask PWC whether or not they're comfortable in terms of moving that down to discontinued in the new year.

If I get to the balance sheet there are a number of annexures in the pack that talk to quite a lot of detail in the balance sheet. I'm going to focus on the numbers that are really important on the balance sheet. Henry talked about cash and cash equivalents. In the current year it's sitting at R3.455 billion. In the previous year it was R2.4 billion. So yes, we've received an advance payment of about R1 billion. But even without the R1 billion it still would have sat on a very strong balance of R2.4 billion, something which is quite pleasing for us.

Now, I just want to pause on that. There is a concern within the market with many analysts that we've got a growing business. Our order book has gone from R30 billion to R46 billion. All these projects are going to drain working capital. Murray & Roberts, how are you going to fund that? Do you have the facilities? It's going to be an awful nightmare for Murray & Roberts to grow this business. In Clough alone we've reviewed six to eight projects over the past two months and each and every one of those projects have been bid on a cash neutral or cash positive basis. It's a contracting principle we've got through the entire group. So I'm not concerned about growth within the group. That is within the contracting principles and we see that they diligently apply it within the group. So of that R1 billion we had a long chat with the Clough board. Not a lot is expected to flow out in the next 12 months. In fact, we are expecting a further advance payment on that project within Clough, so that figure should increase.

Shareholders' equity is sitting at R5.7 billion. There have been many movements up and down. The biggest movement bringing it down from the prior year's R6.7 billion is a R1.1 billion IFRS 15 adjustment that brought the figure down. I spent about four hours last year trying to explain IFRS 15 and I'm not going to try and repeat that this year. The second item we've got to have a look at is our long-term debt. So long-term debt in the prior year was R147 million. That went up to R1.127 billion. So there were three drivers behind the increase in the debt. The first one is we invested an additional 17% in the Bombela Concession Company in FY2018. Due to time we ran out of time. We paid for that from cash as well as undrawn facilities. As you know that is not good long-term business practise. We went through a process to refinance that 17% facility and we've put that not a pref share scheme that is now shown as long-term debt. The second element was the acquisition of TNT where we took debt on board to effect the transaction. And then the third element – and you will see that in the short-term debt as well – is the space finance. I will get into a bit more detail on that space finance. What we see is that we've had the advance payments but we've also had a significant increase in debt due to a number of different items.

So it's the first time that we've shown this slide within the group. I just want to unpack the group levels and group gearing for those that don't fully understand contracting. In terms of debt we've got total debt of R1.6 billion and we've divided that between self-servicing debt as well as corporate debt. Self-servicing debt if I take asset-based finance, we've got a mining contract, we go to Nedbank, we ask for R100,000 to buy that piece of kit. I then go to the client and I supply that kit to the client. In the certificate I have a line item for plant. So I get paid through the revenue line for that plant on that contract on a monthly basis, and that plant is paid off at the end of the financial year. I still earn a profit on that plant. So effectively those contracts are servicing their own debt and there is no reason for us to use profit within the organisation to service that debt. So we do see that as self-servicing debt.

The second is BCT preference shares. We said that 17% investment in Bombela has been ring-fenced in an SPV. So all the dividends coming out of Bombela Concession Company go into that SPV. Some of the money flows to us. Some of the money flows to banks to repay the debt. So again that 17% share is seen as a self-service debt. And then we've got true corporate debt. So we've acquired the TNT acquisition at a value of R635 million. Of that value we've got R319 million debt. So I think the team has done really well in the past two months to bring that level of debt down within TNT. And then we've got corporate overdrafts all over the place in all of the areas. A lot sits in the Middle East and we've got bits and bobs all over the place. So really it's the corporate debt that we've got to use, and we've got to generate profit from within the group to service that debt. The rest of the debt is self-servicing debt.

If you look at our gearing levels total equity is sitting at R5.751 billion. So if we take our total debt and we break that down into the two elements our total gearing on the R1.6 billion is 29%, taking into account that the equity moved down from R6.8 billion to R5.7 billion. But if you just take a true gearing corporate debt excluding the self-servicing debt we're sitting at a gearing level of 9%. And hence we were able to make that statement at the top of the slide saying that the company has got prudent gearing levels.

Henry Laas
Okay. We are getting to the end of the presentation. Now for an update on ATON and then I will end off with presentation take-aways. As we said earlier on, our Chairman, Suresh, is a member of the independent board. So is Diane Radley. I'm not a member of the independent board but I can give you an update on the ATON process and if there are any specific questions I will ask Suresh and Diane to respond to those. You are all familiar with the offer. It started off at R15 a share. It is now R17 a share for quite some time. And it is subject to conditions precedent, specifically approval by the South African competition authorities.

The South African Competition Commission and the South African Competition Tribunal are independent institutions. They analyse, investigate and adjudicate on mergers. And in that process they look at the company, the target company, they look at the acquiring company. They get submissions from those. They get submissions from competitors in the market. They get submissions from clients in the market. They analyse all the information and they come up with a recommendation. In July of this year the Competition Commission recommended to the Tribunal, which is the ultimate deciding body, that the transaction should be prohibited. And ATON exercised its right to contest that recommendation. The Competition Tribunal called for a pre-hearing which was held in the beginning of August. And at that hearing they decided on the hearing date. The process leading up to the hearing date and then the hearing itself will be done on the second week of December this year and the last week of January next year. And the Tribunal will after that process decide whether the transaction will be approved or whether it will be prohibited.

ATON's offer of R17 per share is still below the value range that the independent board has decided on for control of Murray & Roberts, which is between R20 and R22 per share. In June of this year the independent board did undertake a revaluation of the group and maintained the position that the value range of R20 to R22 per share is the correct value range.

The presentation take-aways. You guys get a lot of information in this meeting, but I have to ask myself what it is that I want you to remember after being here this hour. First of all I think the strategy for Murray & Roberts is starting to work. I really feel very sorry for the companies that are still stuck in the South African construction sector where we were a couple of years ago. They really must be going through a very difficult time. But the strategy that we've adopted for the group and the implementation thereof is showing strong delivery. And we are very pleased with the way the order book has grown and the strategic positioning that we have for all the three platforms.

The cash position is still very strong and prudent levels of gearing. 9% or 29% depending on whether you do it on total debt or only corporate debt. An order book of R46.8 billion is a significant order book. And that underscores the board's confidence that our strategy is starting to yield results. Record earnings for the Underground Mining platform. We expect those earnings to be maintained. Oil & Gas is expected to return to profitability in 2020. And significantly the acquisition in the USA from a strategic point of view has positioned us in a buoyant, strong growing market where we can apply our skills in supporting those clients and building those projects for them. The Power & Water platform is targeting complementary markets, but we also believe that the acquisition of OptiPower is going to give the Power & Water platform a new lifeline to grow and to create a sustainable business moving forward.

And then finally the prospects for improvement in our earnings and operational performance are encouraging and we remain confident that the long-term outlook for natural resources is going to be strong enough to provide us with a good market for the group as a whole. So thank you very much. That brings us to the end of the presentation. What we're going to do now is give an opportunity for questions to be asked. Also after the presentation we will be around to answer questions that you may have that you perhaps do not want to ask in this meeting. I'm going to ask you, Ed, to facilitate this process starting off with the people on the webcast and people on the call, and then we will take questions from the audience in the room.

Ed Jardim
No questions yet online, Henry. So I think let's start in the room.

Mark ter Mors
It's very encouraging to see the growth in the order book. I think it is about 45% or 47%. I did notice in your presentation that the dedicated number of the order book for this year is about R14 billion or R15 billion. That's substantially lower than the R20 billion achieved this year. Are you comfortable that the group can still continue to grow top line in this year?

Henry Laas
Absolutely. The order book is something which is dynamic. You know it's not a static number. And I can assure you that by the end of this year the order book will be completely different to what it is today. And that is based on the R200 billion that we have in the category 1 pipeline. A large percentage of that will be adjudicated. And if we maintain our success rate about 45% of that value should come to us. Does that answer your question?

Mark ter Mors
Yes, thank you. Can I ask a second question please? It's relating to the outstanding legal wrangles with the Dubai Airport contract. I believe that the legal authorities haven't come to a decision and now it's back to the two parties to find a solution.

Henry Laas
It's very disappointing what happened there. We've been in a legal process for a decade and the tribunal came out with its decision a couple of months ago. And unfortunately it's not a conclusive ruling. There were very few items that were ruled on, and those items that they have ruled on are mostly in favour of Murray & Roberts. But it was more a ruling that gave guidance to the parties of how the final account on the project should be structured and what the entitlements would be that the different parties would have in putting that final account together. We are in a process now, but having said that with the knowledge of the findings in the tribunal and our subsequent reviews the uncertified revenue on the Dubai Airport we believe is recoverable. But it may take us another 12 months to get there. So very disappointing.

I said to our commercial director, Ian Henstock, the other day, Ian, can't we just lock the office door and throw the keys away and come back to South Africa? Unfortunately it's not as simple as that. Once you've been in a region and you've worked in a region for a number of years, and the company is established in those regions, if you want to go through a process of wrapping it all up and de-registering those companies it is an enormous process. And the same applies to the Dubai Airport. I think we've just had too much in our claim which we believe is money that we should recover for our shareholders. We can't unfortunately just walk away from it. We incur these legal costs every year, but we're going to hang in there until it is finally concluded. It is also the only jurisdiction that I know of where you have on demand bond as we have in our joint venture of a subcontractor that did not perform. And when you present that on demand bond there are processes that intervene and stop that bond from being paid out. So it's a different jurisdiction than what we're used to. Unfortunately, Mark, the tribunal award was not what we expected in that it wasn't conclusive. But it still gave us sufficient confidence that the uncertified revenue is not at risk.

Any other questions? Are there any questions to the members of the independent board on the ATON process? Nothing. Then what I would like to do finally is ask Deloitte or Graham Berry to stand up. Can you please stand up? We've had a relationship with Deloitte as our group auditor for more than 100 years. It is actually 117 years that Deloitte has been auditing us. And our most recent partners, our auditors, are Graham and Nita [?]. They were responsible for the FY19 audit. Due to rotation they will now step down and we've invited PWC to take over from Deloitte to be our auditor going forward. Having said all of that I really can say with a lot of confidence that Deloitte has serviced us with excellent service over so many years and we are very pleased with the relationship that we have with Deloitte. If it wasn't for this governance requirement around audit rotation maybe you could have still been our auditors for a few years to come. But Graham and Nita thank you very much. We really appreciate your service over so many years. It was outstanding. Thank you.

All right. As I said we will still be around. There is something to eat next door. Please make use of it. Don't rush off. If you want to ask questions the platform CEOs are available. So are Suresh, Diane and Ian as well. Please feel free to ask your questions. Thank you very much.

END OF TRANSCRIPT