Conference call transcript

2 September 2021

ANNUAL RESULTS PRESENTATION TO INVESTORS AND ANALYSTS
YEAR ENDED 30 JUNE 2021

Ed Jardim
Good day ladies and gentlemen and welcome to the Murray & Roberts annual results for the year ended 30 June 2021. Welcome to all our stakeholders on both the call as well as on the webcast. For any of our stakeholders on the call that would like to join via the webcast, all those details are via link via our home page, murrob.com. You will find a link there to the webcast as well as to the presentation and our results. This is a virtual presentation so we are coming to you from our office in Johannesburg.

The format for today's presentation will be our CEO Henry Laas starting the presentation for us, and thereafter Daniël Grobler who will take us through the financial results. Just in terms of your opportunity to ask question, there will be an opportunity to ask questions after the presentation. May I please ask you on the webcast to please log your questions throughout the presentation so that we can have a constructive session towards the end? You can do so by looking at the top left of your screen. There is a question button. You can click on that. It will open up a screen for you to type in your questions which we will receive in the room, which will enable us to have a much more constructive session at the end of the presentation. So we encourage you to please ask your questions throughout. With that I would like to ask our CEO, Henry Laas, to kick off for us. Thank you, Henry.

Henry Laas
Thank you very much, Ed, and welcome ladies and gentlemen to our results presentation. As Ed has said, this is a virtual presentation. There are a few people in the auditorium. I really do hope next time this year when we do the results for FY2022 that we can have a full auditorium with investors, shareholder and analysts participating and being present in person. People talk about this new normal under COVID-19 working remotely. For me there is nothing normal about that. My preference is to have face to face engagement with people. And I think that is so important in a business to keep the momentum going and to keep people energised and to feed off each other, so I really do hope that we can get back to normal very soon when we can have people in this auditorium when we discuss our results.

This results presentation there is a lot of it that is looking in the rear view mirror looking at the results of the past financial year. Daniël, our CFO, will take us through that in a lot more detail. What I would like to do as part of my presentations to shine the light a bit more on the future prospects of Murray & Roberts as a group. It is creating a lot of excitement amongst the executive team and also the board of Murray & Roberts. And hopefully you will share that excitement with us after the presentation.

To start off by putting the results in context, I think it is important to realise that the group is recovering from the initial impact of COVID-19. What you see in the top table on this slide is over the past two years the six-month' performance. In FY2020 the first half we had earnings before interest and tax from continuing operations of R419 million. And then in the second half of that year to June 2020 a material loss of R436 million. That was when the world basically went into a hard lockdown when many of our projects were unable to proceed and we recorded that significant loss. However, in the first six months of the current financial year earnings before interest and tax returned to a profit of R117 million. And as you can see, in the second half of the past financial year to June 2021 a profit of R423 million. So very much back to the levels where we were pre-COVID-19. But with that said in the year that has just gone by there was still quite a substantial impact on Murray & Roberts as a group.

However, what is important – this is now if we look forward – is that one forms an opinion and a view about the group's order book. As you can see on the second table on the slide, as from June 2018 over a three year period every six months that we reported our results there was an increase in the order book. And the order book has now reached a point of R60.7 billion, and that is an al-time high order book for Murray & Roberts as a group. Never in the past at a reporting date has Murray & Roberts recorded an order book as high as this. So we are extremely excited about the R60.7 billion order book, and more so because of the quality of this order book. I will say a little bit more about that later on.

This leaves us with a lot of excitement about the new financial year to June 2022 and beyond because we believe that we are blessed with a very good order book that provides us with the opportunity to experience strong revenue growth but also earnings growth in FY2022 and beyond. And that growth, ladies and gentlemen, will predominantly come from our two multinational businesses, the Energy, Resources & Infrastructure platform and our Mining platform.

Just a few words about discontinued operations. We were disappointed with the loss that was reported for discontinued operations in the past year, and I think the investment community as well. But it is important that we give context and that we explain that in a bit more detail. You will recall that the group took a strategic decision way back to withdraw from the civil construction market sector. And that culminated in the sale of the Infrastructure & Building platform, our business in South Africa. And that sale went through in March 2017. The business in the Middle East, which is a building business and at that time was part of the Infrastructure & Building platform, was excluded from the sale because the purchaser was not interested to acquire that business, which had liabilities greater than its assets.

Since that time the group was working very hard to extract ourselves from the Middle East. And it took us four years to reach that point. In the discontinued cost that we recorded in the previous financial year there are costs associated with our final exit from the construction sector per se. In our business that we've sold, the Infrastructure & Building business in 2017 there were quite a lot of retained liabilities and assets that we had to manage through. And all of that came to a close in the past financial year. And we have also now reached a point that we think that we've made sufficient progress exiting the Middle East to say that we've achieved a point of closure.

We will unpack that a little bit more, but in the Middle East we had four operating companies: one in Qatar – that company has currently been deregistered – one in Oman – that company is to be deregistered in the immediate future – and then a company in Abu Dhabi and a company yin Dubai. And the group has entered into a process to sell these two companies to a UAE investor. I saw we have entered the process. I am pleased to say that we have actually yesterday signed a sale and purchase agreement. It is still subject to certain regulatory approvals and we are optimistic that that will be concluded by the end of September. That will give us then a complete and final exit from all our historic construction related businesses.

However the sale of the two companies in the Middle East, the one in Abu Dhabi and the one in Dubai, there are certain potential contingent liabilities that we will retain, and we will manage those diligently and we don't believe that that presents any material risk to the group. The table at the bottom of this slide just indicates the extent of the noise that the discontinued operation results introduced into our results every year that we have to report to the market. In 2019 we had a contribution at an EBIT level from continuing operations of R847 million but we had a loss of R146 million in discontinued operations. In the year after that, FY2020, that loss turned into a profit. And that profit is essentially due to quite a significant foreign exchange gain that was recorded on intercompany loans into the Middle East. Now in the reporting period to June 2021 the disappointment is that loss of R256 million. It is a non-recurring extraordinary type of loss. Of that I think only R120 million was a cash loss, the rest of that not. But Daniël will explain a little bit more where that comes from.

But the good news is that we expect as from FY2023 the cost impact of discontinued operations will really be insignificant. And I say as from FY2023 because due to the sale of the two companies in the current financial year, the one in Abu Dhabi and the one in Dubai, there will be an accounting entry relating to a foreign currency translation reserve – which Daniël will explain a bit better – that will find its way into the income statement. It is important to understand that that will not be a cash cost. It will not impact equity and therefore also it will not impact the net asset value of the company. It is just a final accounting entry that we have to do and we will record that in FY2022. For that reason as from FY2023 it will really be only very insignificant numbers that you will see under the discontinued line. So with us being able to say to you today that the impact of the discontinued operations has had on Murray & Roberts as a group over the past number of years is now coming to an end in finality. And considering our order book, it really positions us well for good growth in FY2022 and beyond. That is what we are so excited about.

There have been quite a few changes on our shareholder register especially in the top ten shareholders. I've decided to include this slide just to give some context especially for our new shareholders. And I would like to welcome them, those that are on this call. We still have ATON as our largest shareholder at circa 44%. And that shareholding has not changed from the time that ATON acquired this stake in the group. We do meet with them regularly at least twice a year when we discuss our results, and we will do so again sometime next week. But there has been quite a lot of movement in the top ten shareholders, not only local shareholders but also international shareholders.

And I want to start off by saying that one point that is very important to understand for all the investors in Murray & Roberts is that Murray & Roberts is not a typical construction company. The market and investors associate a construction company with companies that work in the construction sector, predominantly in heavy civil construction building work. That's not the work that we do as Murray & Roberts. We are an engineering and construction company, but the services that we provide are in specific targeted market sectors and not the typical construction sector. We are not a heavy civil construction and building company.

We apply our speciality of engineering and construction in certain market sectors, and those market sectors are targeted through specific business platforms. And the business platforms are named after the market sectors. We've got three business platforms. From an operational point of view we're structured into three business platforms, and each of these business platforms are managed independently by a CEO and further supporting organogram structures. Energy, Resources & Infrastructure is a multinational business. The Mining business is a multinational business. And then the Power, Industrial & Water business is a business which is focussed on South Africa and Sub-Saharan Africa.

What is our purpose? What is it that we wish to achieve as an organisation? It's not about only making money. I think that is very important, so it is about that as well. But ultimately our higher purpose that we see as a group is to enable fixed capital investment that supports the advancement of sustainable human development. The projects that we build, the assets that we create and the infrastructure that we build have got life expectancies of 20, 30 or 50 years plus. So we are actually building monuments which are there for the benefit of human development for decades to come, whether it's a mine that we build that will provide employment for people maybe for 30 years plus, or whether it is a renewable energy power plant which will provide electricity to the economies and people for many years.

These are monuments which we are building to support the advancement of sustainable human development. And as a multinational engineering and construction company our area of speciality is that we provide our services across the project lifecycle. And that really enables us through the broad expertise that we do have within the group to optimise fixed capital investment. When you work on projects for clients and when we build infrastructure we believe we can optimise that fixed capital investment. By that we mean we can deliver these projects at a lower cost and over a shorter duration than our competitors.

Importantly our values are within the group across all the jurisdictions where we operate. These values are not negotiable, the values of integrity, respect, care, accountability and commitment. And together with our values we've got an operating philosophy of engineered excellence, which combined with our values actually defines the culture of Murray & Roberts as an organisation. So this is just a bit of background for the new shareholders who have joined Murray & Roberts. Again, welcome to all our new shareholders.

Just a bit of detail about each of these business platforms. Firstly, Energy, Resources & Infrastructure. As I mentioned it is a multinational business. It is structured from an operational point of view in three regions, the North America region, EMEA and APAC. And you can see there are quite a number of offices that we have globally, specifically also in the three regions. And each of these regions is managed by an executive team that is responsible for managing and delivering our plans in each of those regions. This business or this platform has got a market focus globally on the energy sector. Our primary focus area globally for this platform is in energy, but in APAC we also provide services in specialised infrastructure and in the resources sector, metals and minerals. We are currently busy with developing a strategy to expand our service offering in the US to mirror the service offering that we have in the APAC region, in other words to expand it also into the metals and minerals space and the specialist infrastructure markets.

The order book for this platform is R37 billion as at the end of June. I mentioned earlier on that the order book as at the end of June for the group of R60.7 billion is an all-time high for Murray & Roberts as a group. The order book of R37 billion for this platform, which is trading under the main brand, Clough, is the highest order book ever recorded by Clough. So that should give you some sense of the success that the group has achieved over time in implementing our strategy which is currently bearing fruit and starting to manifest in this order book that we have built up over a period of time.

If I move on to the Mining platform, again this is a multinational business. We've got three separate regional businesses In the Americas, Sub-Saharan Africa and APAC. And you can see globally quite a number of offices. And we trade predominantly under the Cementation brand. The CEO of that platform, Mike Da Costa, is in the room. And the focus area for this business is globally underground but also open pit mining. Currently we don't undertake any open pit mining work. It is part of our aspiration to diversify into open pit mining. We are waiting for the right opportunity. But as far as the underground mining market is concerned I think it is fair to say that Cementation or this platform is one of the leaders in the world when it comes to underground mining.

Our order book at R23.2 billion is up from R19.4 billion at the end of the previous financial year. We've been carrying a project in that order book to the value of about R2.5 billion for a few years. It's a project that was awarded to us but the client picked up some issues from a financing point of view and to date we haven't received a notice to proceed. So what we decided to do in the current financial year is to exclude that order from our order book. So the R23.2 billion that you see as at the end of June reflects the growth that we had in the order book net of that specific project of R2.5 billion that we have exclude from the order book.

We are very excited about this business. This business has for many years been a top performer in the group. The past financial year had a reasonable result, but having said that the Americas really were impacted by prolonged impact of COVID. Our revenues started to come a bit under pressure. Our order book in the Americas started to come a little under pressure.

So the results from the Americas are not as good as we hoped for. But I can tell you towards the end of the financial year we had quite a few sizable awards in the Americas, and that is part of the reason why the order book closed at R23.2 billion at the end of the year. A very good position for this business. We think that the prospects are very good. People are talking about a super cycle in commodities. We talk about a super cycle for a few commodities, those commodities that support the efforts to decarbonise the economies of the world. But although we expect strong growth in FY2022 we think that the real opportunity for this platform to perform strongly will be in FY2023.

And then finally the third platform in the group is the Power, Industrial & Water business. It is focussed on Sub-Sahara Africa. It is a platform that does not have a similar opportunity as we have in our two multinational businesses. As I said, the two multinational businesses are really well positioned with a global footprint and they've got very attractive opportunities to pursue that will translate into earnings growth for the group. The opposite applies to Power, Industrial & Water. It operates in the local market, predominantly South Africa. And we haven't see investment in the power, industrial and water sector to the extent that is necessary for this platform to make a contribution to our results.

In the power space there is a lot happening in the renewable sector and we're well positioned for that. But the companies that will benefit most from the new solar plants or the wind farms that will be built in South Africa are the international companies which are the technology owners, the OEMs. But we will also get our share of the deal, and that will be on the electrical balancer plants and the transmission lines that will have to be built to connect those power plants with Eskom's network grid. But this business is struggling and we question the viability from time to time. We've been through quite a strong restructuring again in the current financial year. And unfortunately the projects that have started pre-COVID still suffered from the consequences of that, so not a good result for this business in the past financial year.

The board has debated extensively what the best future for this platform would be, whether it should be closed, whether it should be reorganised, whether it should be re-focused. Various scenarios were explored. And we decided on one specific scenario which also meant that we decided to retain this business. It is essentially there because of the promise that we see with infrastructure spend in South Africa. If you consider the water infrastructure in South Africa which is in a terrible state, significant investment is required at the municipal level on waste water treatment plants. And that's the work that we do in this business, so we are readying ourselves for this opportunity.

As I said, in the power sector there is opportunity coming in the renewable space. But we also believe with Eskom there is significant opportunity. There are a lot of new transmission lines which need to be built for Eskom, and we are positioned for that. So yes, it's a business that is struggling, but we believe there is sufficient prospects in the mid to near term for us to maintain this business for now and to target those opportunities and see how successful we can be.

I think this slide puts in contrast the two multinational platforms, Energy, Resources & Infrastructure and Mining, with Power, Industrial & Water which has got no order book to talk to. The Energy, Resources & Infrastructure and Mining collectively is where our order book of R60.7 billion comes from. And as I said, that is a phenomenal order book for a business such as Murray & Roberts, especially as we were able to achieve this order book as we worked ourselves through the past two years of COVID. I don't think you need to explain to anyone on the call how businesses have been impacted by this pandemic. So to have gotten to a point of R60.7 billion order book, to us that is something that we are very proud about.

Now, I said at the beginning when you talk about your results a lot of it is looking in the rear view mirror. And I will leave a lot of that to Daniël. This slide is looking into the future. And I want to spend some time to take you through this slide which looks a bit busy but is actually a very good slide, not because I designed it but because I think it's a good slide. Let me take you through it. On the left-hand side you will see the three platforms: Energy, Resources & Infrastructure, Mining, and

Power, Industrial & Water. What we try to indicate in the columns to the right is the split between the SADC region, which is southern Africa region, and the international. In other words, the order books within that platform how much of that order book is in the SADC region and how much of that order book is in intentional.

For Energy, Resources & Infrastructure you will see 100% of that order book is outside of SADC. It is in the international market. In our Mining platform 49% of the order book is in the international market. 51% is in Murray & Roberts Cementation which is our mining company in South Africa which is part of the Mining platform. And Power, Industrial & Water which is focussed only in South Africa, the order book of R500 million, all of that is in South Africa. The column to the right is just contrasting the June 2020 order book position with June 2021. And you can see how the order book position moved from the previous year-end, or the 2020 year-end, to the June 2021 year-end and totalling up to R60.7 billion compared to the R54.2 billion of the previous year.

I think the most important part of this slide is the information presented on the far right-hand part of the slide. What we depict here is the time distribution of the order book. If you take the Energy, Resources & Infrastructure platform as an example, that order book of R37 billion, if you look at the way in which the projects have been scheduled R16.8 billion of that revenue should be earned in FY2022, R11.3 billion in FY2023, and then the remainder is beyond FY2023. So we've done that for each of the three platforms. And just below the totals you can see we have totalled it up for FY2022. That gives you R26.8 billion. Financial year 2023 already R17.5 billion secured, and then the balance beyond FY2023. The significance of this slide is that the financial year to June 2021 we had total revenue in the group of R21.8 billion. And we have already at this stage secured in our current order book R26.8 billion for the new financial year. Our expectation is that revenue for FY2022 will comfortably exceed R30 billion, which will be a 50% improvement on the revenue for the year to June 2021.

On the right-hand side on the bottom you can see two tables, one for FY2019 with totals to the right, and one for FY2020 with totals to the right. And what we try to show there is the same information, that order book distribution, what it was in June 2019, what it was in June 2020, and we now know what it is in June 2021. We can see starting off from FY2019 at that time we had R14 billion secured for FY2020. Moving forward to June 2020 we had R16 billion secured for FY2021. And we know that the revenue in 2021 was R22 billion, so R6 billion up on what the order book was at the beginning of that financial year. And today we have an order book of R26.8 billion already secured for the financial year to June 2022. Let's round it up to R27 billion. We should comfortable achieve another R6 billion on top of that. So we've got an expectation as the executive team within this group that our revenue for the new financial year should exceed R30 billion. And that is quite exciting to have that level of revenue, and without the burden of the discontinued operations really sets us up nicely for the future.

I don't want to spend too much time on this slide because it's just presenting the information differently for the order book. Near orders is really work that we have secured, but it hasn't been signed yet because it is subject to commercial close or other reasons that we are not able to take it into the order book yet. But the near orders have got a 95% chance of translating into the order book. Category 1 is tenders that we have already submitted that are under adjudication. There is R84 billion of tenders that we have submitted and which are under adjudication. And we cannot say that we're going to win all of it, because there are also other people in the market that compete with us and we're not always successful with every tender that we submit.

But the important thing is that of that R84 billion, R30 billion has been negotiated on a sole source basis, which means we are not competing with other competitors on that R30 billion of work. There are three projects in that space. One is a project in Zimbabwe and two projects in Australia which collectively make up the R30 billion on a sole source basis. So there we are the preferred bidder. We've worked with the client to a point that they're ready to proceed with the project. And all three projects are subject to final investment decisions and we can't time that exactly, but we are confident that some of them will find their way into the order book if not by December certainly very early in the second half of the current financial year.

So the pipeline which is defined as near orders, category 1, category 2 and category 3, is a healthy pipeline. We don't go into the internet to look at what investment opportunities are available in the market and put it in the pipeline. The pipeline comprises specific opportunities that we have identified as a group that we are targeting and which we believe we've got a reasonable chance of securing. So it is a very small subset of the universe of projects that are out in the market. The pipeline represents the opportunities that we have identified and that we are targeting to secure for the group.

Just a word on our safety performance. I think by now the market will know how important safety is for Murray & Roberts as a group. The slide on the left shows you the improvement in our lost-time injury frequency rate. That was as high as 1.3 in 2011. For the past financial year it was 0.9. As you can see in that area that has been circled, we have reached a plateau in our lost-time injury frequency rate. It's very difficult to improve on this rate because it is almost best in class compared to a peer group of companies in the relevant market sectors where we operate. But we are really working very hard to find a way to improve that result further. The bar graph on the right-hand side shows you the improvement that we had when it comes to fatal incidents in the group. In 2011 we had 12 fatal incidents which is very regrettable. That has come down. In 2019 we had zero. In 2020 we had zero. But in 2021 on 1st July, the first day of the financial year, one of our employees, Wilfred Moleofi, was injured on site and he passed on following those injuries. It's a very regrettable incident, and again we want to extend our condolences to Wilfred's family and to his friends.

As far as the pandemic is concerned, Murray & Roberts employs about 9,500 people globally of which about 1,120 to date have been infected by the virus. That's about 11.5% of all our employees. 98% of those have recovered, but regrettably 12 of our employees have lost their lives to COVID-19. As far as vaccinations are concerned it's very important that we continue to encourage our employees to be vaccinated. Together with our clients we make facilities available for employees to be vaccinated. And each and every employee who works for Murray & Roberts anywhere in the world if he or she wants to be vaccinated they can be vaccinated. We are encouraging our people to be vaccinated. We believe it is very important that this effort continues globally so that we can get to a point where we can develop some defence against this virus and life can return to normal. We can start to travel again and visit the operations. So vaccinations are very important and we are encouraging our employees to get vaccinated.

Before I hand over to Daniël, just a snapshot of the salient features. Revenue of R21.9 billion – make it R22 billion – is R1 billion up on the previous year. Continuing operations moved from a loss of R17 million to a profit of R540 million, quite a strong turnaround for continuing operations. As I mentioned earlier on, the disappointment in the year's results was the discontinued operations loss of R250 million which Daniël will unpack a bit more. But the continuing operations translated into diluted HEPS of 16 cents compared to a loss of 88 cents in the prior year. We've spoken about the order book. Our net cash position is R0.7 billion compared to a net debt position at the end of the previous financial year of R0.1 billion, so an R800 million improvement in our net cash position. So ladies and gentlemen, with that I would like to hand over to Daniël. As I said, Daniël is going to unpack the results in a lot more detail. Thank you, Daniël.

Daniël Grobler
Throughout the course of Henry's presentation he mentioned a number of areas that Daniël will unpack and Daniël will explain, putting a bit of pressure on me to ensure I get that right. The flip side is he explained a number of items that I would have explained in a lot more detail. So I guess on the pressure point we almost equal out on those points. Normally the financial section is a section where a lot of people have interest in, so without further ado I'm going to jump straight into

the income statement. Revenue is up by R1 billion and in further slides we're going to unpack the elements that make this up, so we will get into the detail. EBITDA is up considerably compared to prior year. Net interest is in line with prior year.

You can still see we've got a very high tax rate. There are three elements baked into this tax rate that we are managing. The first element is withholding tax. Whenever you have operations that generate profits in parts of the world like Indonesia, Namibia, Zambia, when you make profit on those jobs you have to record withholding tax even if you don't bring the dividends back. So that contributed a significant amount to the tax. The second element is where we have entities where we have overhead costs and we incur costs in those entities but we don't have sufficient generating income to enable us to create a deferred tax asset and lower that tax rate. Those two alone make up close to R200 million of the R243 million tax. The third element is of course at the moment we've got a low earnings base. So if that earnings base was double or three times what it should have been, that tax rate would have come down. Now, we are doing quite a lot of work to lower the tax rate. Henry mentioned in FY2022 the tax rate will come down, but it should normalise in FY2023 going forward to a much lower rate than we're currently experiencing in the current year.

If we go a bit lower down we get to discontinued operations. I've got a separate slide. Henry challenged me to unpack that. So I will unpack that on a different slide. The segmental reporting starts with the ERI platform which we are now reporting in the way that we manage the business. Henry mentioned that each of the areas, North America, EMEA as well as APAC, have their own Managing Directors. They manage their own balance sheet and P&L. I'm going to start with North America. We can see an increase in revenue and we can see a decrease in order book. That was the execution of the Next Wave project. And I can gladly say that project is currently on tender margin and that project is doing well. Henry mentioned that we are exploring opportunities elsewhere in the US to tap and enter into other areas In the US market to allow us to expand our services.

If we go to EMEA, they were faced with not only Brexit but also the pandemic challenges. We expect both of those to dissipate in the near-term future, so we expect an increase in order book as well as in earnings within that sector. APAC unfortunately had an overhang of loss-making projects coming over from 2020 to 2021. Those loss-making projects brought operating profit for the current year down. What we do see is an increase in order book from R23 billion to R31.5 billion. Now, as we stand here today within the entire ERI platform there are no more loss-making contracts in the platform and the platform is performing according to tender margins. We monitor that on a monthly basis and quarterly basis, and as we sit here today there are no more loss-making projects in this platform.

If we go to Mining it has always been a good contributor to the group. If we look at Africa, another very steady performance, a strong order book and a strong team that delivered good results. In Australia we can see a reduction in revenue. The reduction in revenue obviously led to a higher idle fleet depreciation. We can however again see an increase in order book. Now, I can't tell you what the project name is, but the project was a significant project and the revenue basis for that project was a cost plus low-risk basis. So we do expect an improved performance in Australia in the new financial year.

In the Americas I think that's probably the area in the business where we're carrying the biggest impact of COVID. There were project delays. There were projects that were being delayed in terms of being awarded. But that's a very well-run unit. They've got no loss-making projects within that unit. They manage their overheads. They managed what they had to do. As you can see in the order book. They have had some late orders coming in and we do expect a better performance for this platform in the new financial year. Quite pleasingly you can see the order book went up from R19 billion to R23.2 billion, so a reasonable performance by this platform in the current year.

In the PIW sector Henry said quite a lot in terms of what the board deliberated. What I'm not going to do is give an excuse for the results. I'm just going to give you some context as to why this result came and what the various challenges were in the current year. We can see the turnover came down from R1 billion to R465 million. That's your Medupi and Kusile power plants that were coming to an end. We are still doing some outage work on those projects. The margins on outage works are higher. And we were also in a position where we could release some of our risk provisions on the Medupi and Kusile projects once those risks had been managed. You can still see an order book of R200 million which mainly our outage work for these projects on Medupi and Kusile.

Water, you can see we've still got Athlone in the order book. It's R124 million. Now, one of the obvious observations is we haven't got enough revenue to generate margin in this segment within PIW to cover overheads. The R32 million also includes a slight inventory impairment. When we went into the details why we're holding on to this platform, the hope is that in the country there is a water crisis and we are expecting not in the short term but in the medium to longer term that that sector will turn. Transmission and distribution we can see a reduction in revenue. There are a number of tenders that were submitted to both the wind [?] farms as well as Eskom. These tenders have not yet been awarded. Now, we are talking about a number of tenders. Once these tenders are awarded we do expect to win some of them. We expect this division within the platform to become profit making again. And traditionally they have done well. This is a strong division within the platform and we do think that they will do well going forward.

Under other we've included electrical instrumental and resources and industrial which showed a loss in the current year. I can say that that loss was predominantly pandemic driven. We did a large project down in Natal. The project was tendered with Thai welders coming in to do the work. It was a very labour intensive project. COVID hit. The Thais had to go back to their country and we had to complete the project with local welders. If you compare productivity from Thai welders to local welders, it's like chalk and cheese. And that added a number of not days but months to us completing this project. Hence we recorded a loss in that platform. All in all we ended with a loss of R175 million and we've still got R470 million in the order book.

In Bombela when the pandemic hit the country in the prior financial year we assessed what we thought would be the economic impact on the concession going forward. We said on a continuous basis we will continually reassess what the pandemic impact would be. So in the current year two things happened. One is we engaged with an independent consultant to try and give us forecasts as to what the ridership will be and when we will see normality including vaccinations and a number of other elements coming into play. And we think that during this earlier part of 2022 there will be some normality in the non-airport links. And later on in this year we will see some normality being restored in the airport links.

The second element was we did submit a business disruption claim. We were successful in that claim, and we utilised proceeds to pay off a huge amount of debt within the concession company. Ideally that allows you to change your model. Your interest elements are going down, consultancy fees. A number of elements same down, so we could rerun the number to forecast what dividends we're going to receive. And as you know, we then discount those dividends to get to a fair value adjustment the current year. In the current year our fair value adjustment was R209 million.

For discontinued operations I'm going to spend a minute explaining this slide. In the Middle East you will see we made a profit of R120 million in the prior year. A large element of that was linked to foreign exchange gains made on intercompany loans. And those were recycled through the income statement, masking a lot of other things in the income statement. In the current year we have a loss of R110 million. Now, when we decided that the assets as well as the liabilities of the Middle East entities had to be reclassified as held for sale, according to the accounting standards you have to fair value them. And a R17 million loss, which is a non-cash loss, was recorded due to the revaluation of the assets and liabilities.

The rest of the R93 million was made up of salary cost, legal costs, and we also had a R38 million foreign exchange loss recorded in the current year, again a non-cash loss. Under other Henry mentioned we sold the platform Infrastructure & Building. We retained a number of liabilities. Over a period of four years we managed those liabilities against Murray & Roberts as best we could. These are the two last liabilities which we managed to reach a settlement on. Unfortunately the settlement was higher than what was recorded as provisions in our books and we had to take a final cost in these.

Henry did mention that in the next financial year, FY2022, that when we sell the entities we are going to record foreign currency translation loss in the income statement. If you take your balance sheet you've got assets and liabilities. That gives you equity. There are a number of elements within equity which includes your distributable reserves, in other words your income statement, as well as your foreign currency translation reserve. Accounting-wise what happens is, if you close an entity if there are any losses or profits in your foreign currency translation reserve those need to be recycled through your income statement. It has got no impact on the NAV of the company. There is no cash related to the outflow of this. But it's an accounting entry that we will have to put through discontinued operations in the new financial year. Once that is done though we foresee the discontinued operations to be negligible, minimum cash in and outflows. I think on that line we will return to normality.

On the balance sheet we can see cash increased from R3.4 billion to R3.697 billion. In the current year we had a foreign exchange loss on cash. So in other words, $10 was worth less than it was in the prior year. So despite that foreign currency loss of about R440 million we still ended up with a strong cash balance of R3.697 billion. We can see on the assets and liabilities held for sale those mainly relate to the Middle East entities. What we can see is shareholders' equity has reduced by R634 million. That is made up of two elements. One is R180 million of attributable loss that we recorded. And your foreign currency translation reserves sitting in equity also reduced by R440 million. So those two combined got you to the R634 million.

We can see in terms of short and long-term debt we did a good job of repaying about R500 million in debt. A question we do get asked is you've got a big order book – will you be able to use your working capital to finance these projects? Just some information as to how we bid these projects. Especially in the ERI platform where the bulk of the projects have been won we do not bid on projects that are cash negative. They either have to be cash positive or very cash positive going forward. What we could see in Next Wave was once we started those projects we've been cash positive going forward. So I'm not concerned that the projects that have been secured will utilise any of the working capital facilities. We've got ample working capital facilities to support the growth of the order book going forward. And as I said, no concerns on those.

On the last slide I want to give some perspective in terms of how the group looks at our gearing and what we do when we look at gearing. We divide our debt into corporate debt, self-servicing debt as well as IFRS 16. The corporate debt is debt that we have to use company profits or play with money that we earn to reduce the debt and bring that down back to zero. Of the R3 billion debt that was R1.755 billion. Self-servicing debt relates mainly to asset based finance. There is some Bombela preference share debt in there. I don't care if that figure increases threefold. Those facilities are limited to specific projects. If I buy an LHD for a project, that project vendor services the debt, not the profit earned on that project. So self-servicing debt we keep an eye on, but it is not driving the gearing level for us as a company and as a group.

IFRS 16 is important to bring in. A lot of banks when they develop covenants look at IFRS 16 as the new accounting standard and add that back when you talk about total debt. If you look at the bottom of the slide at the group's gearing ratio despite the reduction in equity the corporate debt still maintained a level of 35%. And we are comfortable at the level of 35% to

40% in terms of gearing for corporate debt. If you include self-servicing debt it goes up to 50%. If I include IFRS 16 that goes up to 60%. Henry, I think I've addressed most of the tough questions. Back to you.

Henry Laas
Thank you very much, Daniël. Ladies and gentlemen, this brings us towards the end of this presentation. And what I would like to do is just leave you with a few presentation take-aways. First of all, the return to profitability for our continuing operations. You will recall a loss of R17 million in the prior year which turned into a profit of R540 million in the current financial year. There is still impact of COVID in the business, but we believe that that initial impact we have worked off now. Significant is the order book of R60.7 billion, which is a material order book.

Daniël did refer to working capital and our order book. I didn't mention it earlier on in the presentation. When it comes to dividends the board has resolved not to declare a dividend for the past financial year essentially because of the order book and potential working capital requirements. So let's see how it goes in FY2022, which we are very optimistic about, and we will take a decision around dividends at the end of the next financial year. As you know, we only declare full year dividends and not at the half year stage.

A robust cash position of R1.6 billion unrestricted cash. I must say all that cash sits predominantly offshore. That's where our cash is. The proposed sale of the two companies in the Middle East, which is now in a regulatory approval process, brings a close to our woes in discontinued operations that we've been managing for the past four years. And it is now a final exit from the Infrastructure & Building platform and the remnants of the business that we sold four years ago. So this is quite a milestone for us to have achieved this point.

The ERI platform has significant revenue secured for next year, a strong pipeline of opportunities. It is well managed and we are very pleased with the position of that business. Equally so for the Mining business. Although I said we expect much improved results in FY2022, it is really FY2023 where we're going to excel. Is that correct, Mike? Mike says yes. The CEO of that platform just confirmed 2023 will be the year. Ladies and gentlemen, Power, Industrial & Water as you can see from the results and as I said earlier on is facing significant challenges but focussed on creating a sustainable base for this business and we are pursuing credible opportunities in renewable energy and transmission.

Then finally as far as the group is concerned we have defined our strategy and new strategic future way back. We started with its implementation in 2015. We stayed true to our strategy. Part of that was to exit the civil construction and building market which we did in 2017. We had to retain the business in the Middle East. That has now finally come to a close. But the order book during this period that we had ups and downs on discontinued operations, as we were managing those liabilities that we had, the order book continued to grow every six months. And that is reflective of the fruits of our strategy starting to bear fruit. So we are very pleased about that.

And also the markets we are targeting as a group are growth markets. We know there are a lot of initiatives globally to get the post-pandemic global economy going again. So there will be a lot of investment in the market sectors that we are targeting. In the commodity market, the resources market, metals and minerals there is a strong commodity cycle. So I think we have cleaned out the past as far as discontinued operations are concerned. As Daniël has explained, there will be a foreign currency translation reserve accounted for in FY2022. Don't be concerned about it. It's purely an accounting thing. It's in the order of R250 million if you base it on the end of June exchange rate. But it is not cash. It will not impact equity. It's a movement within equity. And it will not impact the net asset value. But beyond that discontinued operations will be insignificant. And we have the strong order book.

The pressure is on us as a leadership team at a corporate level as well as the three operating platforms or business platforms to make sure that we deliver our projects well. The risk in the group today is project delivery. Our strategy has translated into a strong order book. We now need to deliver this order book profitably and earn good profits as we have tendered. It's a quality order book. We've tendered at a GP level not below 10%. So there is a quality order book. And before you ask questions, let me ask a question. Are the planets starting to align for Murray & Roberts? I leave you with that question, ladies and gentlemen. We're now going to hand over to Ed. Ed will join us in front here and we will take some questions. I will just get my mask quickly, Ed.

Ed Jardim

Henry, Daniël, thank you very much for the presentation. Just one or two questions that have come across the webcast. The first one is please update any further growth plans including acquisitions in the United States.

Henry Laas

Thank you for that question. When we decided on the press release and the disclosure in the press release I was tempted to put in an acquisition in the USA, but the board felt that it is premature and we can't say too much about it now, which is correct. But if you ask me the question are we pursuing opportunity in the US, the answer is yes, we are. As I said in my presentation, the objective is to diversify our service offering in the US so that it actually mirrors what we are doing in Australia in the APAC region. It is not going to be a substantial acquisition. If we can get it over the line I would think it is probably going to be in the order of R300 million. That is what we are targeting. But it is too early to say whether we will be successful. It is part of our plans and due diligence is underway.

Ed Jardim

Thank you Henry. On the Bombela the business interruption claim was we achieved success through, was that part of the results that have come through?

Henry Laas

No, it's not part of the results. The business disruption claim was capped at a certain amount. It certainly did not cover the extent of the financial impact of the pandemic on the investment. So it was capped. But what we decided to do is to apply the proceeds from that claim to make a down payment on debt. The impact of that is that the interest charge going forward reduced. And because of the interest charge reducing this kicks out a different cash stream in the financial model. By giving a DCF [?] on the expected dividend you come to the fair value that Daniël has explained. So it doesn't feature directly in the results, but indirectly as it was utilised to reduce debt which translated into reduced interest expense into the future.

Ed Jardim

Thanks Henry.

Henry Laas

Is that correct, Daniël?

Daniël Grobler

It's correct. The cash streaming going forward gets turned into dividends, and the dividend payments get discounted. And by doing that you [inaudible].

Ed Jardim

Sticking with Bombela, let's assume post-COVID and passenger numbers are coming up again. What is a normalised contribution? What can the market expect as a normalised contribution out of the investment?

Henry Laas
We will be able to do about R210 million to R220 million per annum. As Daniël explained, the impact that we accounted for in the previous financial year was on a DCF basis taken into consideration in the valuation of the investment. So that full impact was recorded in the 2020 financial year when we had R119 million. I can't remember the exact number. In the past financial year it was just over R200 million. So the only way in which that result may change a bit is if the actual ridership is more than the forecast ridership, which is currently based on the analysis that an independent consultant did for us. Around R200 million, around there.

Ed Jardim
Thank you. Three questions on mining. Can you comment on what you are seeing in the mining market from a competitor perspective? How competitive is the tendering process? And would you look at any bolt-on acquisitions in this segment? So competitiveness and bolt-on acquisitions.

Henry Laas
The mining market is interesting. It is not the market where the margins used to tender on projects are very flexible, reflective of increased competition or not. There is a lot of competition. Let's not fool ourselves about that. But it differs from region. In certain regions there is more competition than in other regions, depending on how many competitors you have in that specific market. But I would not say it is more competitive now or less competitive than what it was about a year ago. I would say it's still very much the same. From an acquisition perspective, for us given our position in the market we've got quite a big market share in all the markets that we are servicing. So for us to acquire a company that provides a similar service, just another acquisition to do more of the same, I think first of all it may present a challenge from a competition point of view.

Secondly, that is not our objective. What we would like to do is to diversify our earnings stream. That was part of the strategy when we did the TNT acquisition in the US a year or two ago. TNT is a company that provides in the mining sector logistical services, crushers and screens and conveyer systems etc. So if we want to do an acquisition we will probably pursue something like that which gives us a new type of revenue stream, or possibly something in the open pit mining. But we've explored the opportunities in South Africa and we can't do an acquisition in South Africa. And that's where we would like to do the open pit mining work. So it's not going to be hard for us to do an acquisition in the current market of companies providing similar types of services. But it's something that we are continuously looking at. We are in the market to find businesses that can complement our current revenue stream, in other words in the mining sector but opposed from underground mining, the type of work we're currently doing. A new type of earning stream.

Ed Jardim
On order book growth, execution and risk a couple of questions. The first one is any medium-term guidance possible to where the order book could grow to over the next 24 months based on executing capacity and market demand.

Henry Laas
The order book currently is at R60.7 billion and I did give an indication that we expect the revenue to be R30 billion in this new financial year. What that means is for us to keep the order book at R60.7 billion if we're going to have revenue from that order book of R30 billion in FY2022, we have to secure new work to the value of R30 billion to stand still, to maintain the order book. And to secure R30 billion every year is a significant challenge. Now, I don't know. I can't really say how much

the order book will grow. But I think the R60.7 billion that we have is probably as good as it will get. As I say, we're going to use R30 billion of that order book in the new year. We will have to win work of between R30 billion and R33 billion just to stand still. But there is a strong pipeline and we will see how the order book plays out. The R30 billion which is in category 1 on a sole source basis, we hope that that will come through in the current year. And if that is the case, then we should be a similar order book at the end of FY2022.

Ed Jardim
Then on execution and risk, what are some of the key risk converting this order book into earnings? And can you comment on the feasibility to execute across the growing order book? How do you pick up delays and issues early etc.?

Henry Laas
I think the area where we had the most significant order book growth is in the Energy, Resources & Infrastructure platform. And I'm going to answer that question by referring to that platform. In Mining we had an order book of R19 billion last year. It is now R23 billion. It is within the normal capacity of that business to deliver that order book. But in the ERI platform we went through quite an extensive assessment of our project delivery capabilities within the platform. Several changes were made. People exited the business. New people were introduced into the business. We've done a lot of work over the past few years as far as our project management systems are concerned, which I think currently are up to date. And we have a very intensive internal audit process running very effectively to assist us in identifying early issues on projects should there be any. So it is a combination of a very broad range of initiatives which I believe are mature to the point that it should enable us to effectively deliver on this order book.

But the biggest risk on any project is the quality of your leadership on that specific project. Now, in our type of business as you know we mobilise people onto a project. When a project comes to and end and we don't have a replacement project then we demobilise people. So we are constantly having people moving into the group and moving out of the group depending when projects start and when projects come to an end. And it does from time to time happen that you start up a new project and most of the people are new. And you don't know how well they actually perform. You need to manage them very closely. It does happen from time to time that you have to change them out. So for us going forward it's really a focus on making sure that when they start that we start them with the right management team. But from a system point of view I think it's all well under control.

Ed Jardim
Thanks Henry. One final question. Other than the foreign currency effects, what is the worst case position in terms of costs we could still expect to come through at the discontinued operations?

Henry Laas
This is a difficult question. I really don't know. It's going to be minimal. What we have is under discontinued operations we've got some very minor work that we continue to do on Medupi and Kusile which is design related. It goes back many years. But it's a minimal cost. It's R10 million or R15 million per annum, if that much. And then as far as the Middle East is concerned now that these businesses have been sold we no longer have an office there. Subject to this regulatory approval process we will retain one or two individuals to assist us to manage the potential contingent liabilities. I would not think that the total cost will exceed R30 million per annum. In a year or two it should come to an end.

Ed Jardim
Thank you Henry. Thank you Daniël. No further questions on the webcast, so we can conclude.

Henry Laas

Well, and then just finally from me again, thank you very much. Daniël, thank you very much. And I also want to make use of the opportunity to thank each and every executive and employee within the Murray & Roberts group which has worked very hard over the past financial year to achieve this turnaround in continuing operations. And I really look forward to being in a position to talk to our shareholders that have put their trust in Murray & Roberts and have invested in Murray & Roberts to soon be rewarded with a very good set of results. So thank you very much.

END OF TRANSCRIPT