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CONSTRUCTION

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A REVIEW OF SOUTH AFRICA'S

CONSTRUCTION SECTOR

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LIST OF ABBREVIATIONS AND ACRONYMS

ACT	'Africa's Construction Trends'
ASJV	Aveng Strabag Joint Venture
BRP	business rescue practitioner
CBE	Council for the Built Environment
CIDB	Construction Industry Development Board
EPC	engineering, procurement and construction
FEM	Federated Employers' Mutual Assurance Company
GFCF	gross fixed capital formation
JV	joint venture
LNG	liquefied natural gas
M&R	Murray & Roberts
MoU	memorandum of understanding
MTEF	Medium-Term Expenditure Framework
N2WCR	N2 Wild Coast road
PCF	post-commencement financing
PIC	Public Investment Corporation
PPP	public–private partnership
REIPPPP	Renewable Energy Independent Power Producer Procurement Programme
Sanral	South African National Roads Agency Limited
SME	small and medium-sized enterprise
SoE	State-owned enterprise
TVET	technical and vocational education and training
VRP	Voluntary Rebuild Programme
WBHO	Wilson Bayly Holmes-Ovcon

KEY DEVELOPMENTS

March 2018: One of engineering group Murray & Roberts' (M&R's) biggest shareholders, ATON, announces a R15 a share offer to acquire all M&R shares.

May 2018: Murray & Roberts (M&R) announces it is in negotiations with infrastructure development group Aveng for a possible merger. Investment company ATON describes the move as a means to hamper its efforts to buy out M&R.

May 2018: ATON raises its offer to M&R shareholders to R17 a share.

June 2018: Construction and engineering group Basil Read announces that it has entered into business rescue.

July 2018: Multidisciplinary construction group Wilson Bayly Holmes-Ovcon buys a 60% interest in UK-based contracting company Russells.

July 2018: Aveng raises R493-million in a rights offer, with the proceeds used to reduce its debt.

July 2018: ATON acquires a 25% interest in Aveng and M&R withdraws its offer to merge with Aveng.

August 2018: The business rescue practitioners appointed by Basil Read publish a business rescue plan.

August 2018: Multidisciplinary construction group Esor's Esor Construction subsidiary files for business rescue.

August 2018: Aveng agrees to sell its Vanderbijlpark and Jet Park properties for R254-million.

September 2018: Aveng redeems R2-billion of convertible bonds, further reducing its debt to R1.80-billion.

September 2018: The Basil Read business rescue plan is presented to creditors and approved.

September 2018: President Cyril Ramaphosa announces that a R400-billion infrastructure fund will be established to boost investment in the country's infrastructure.

October 2018: Aveng announces the sale of its rail business to Mathupha Capital for R133-million.

October 2018: Diversified construction firm Group Five posts a R1.43-billion operating loss for the 2018 financial year.

October 2018: Group Five CFO Christina Teixeira resigns.

October 2018: The South African National Roads Agency reports that construction work at its R1.65-billion Mtentu bridge site has come to a halt amid violent community protests.

November 2018: Group Five says the Kpone oil- and gas-fired combined-cycle project faces a further delay over fuel contamination.

December 2018: Special purpose vehicle Cenpower Generation, which contracted Group Five for the Kpone project serves the group with a notice of termination of the contract, which Group Five disputes.

December 2018: Group Five reports that it has received expressions of interest from undisclosed parties to acquire some of its businesses.

December 2018: Group Five appoints a new CFO.

January 2019: Group Five reaches an agreement to sell its Everite and Sky Sands manufacturing businesses to a consortium comprising Trinitas Private Equity and Agile Capital for R480-million.

January 2019: Aveng agrees to sell its Aveng Water and Aveng Namibia Water businesses to Cambrose 735 for R95-million.

January 2019: Aveng announces that the Aveng Strabag joint venture has declared force majeure at the Mtentu bridge contract, as a result of safety concerns following violent community protests.

February 2019: The Aveng Strabag joint venture terminates the Mtentu bridge contract over concerns for the safety of its staff. It later refutes claims by the South African National Roads Agency Limited that the termination was the result of financial difficulties being experienced by either of the joint venture partners.

February 2019: Themba Mosai resigns as CEO of Group Five.

February 2019: Basil Read Mining's Basil Read Mining Botswana subsidiary announces the sale of its interest in the Majwe joint venture, in Botswana.

March 2019: Group Five enters into business rescue and requests voluntary suspension from trading on the JSE.

Picture by Creamer Media

BUSINESS ENVIRONMENT

Investment in South Africa's infrastructure has slowed significantly since the construction boom before the 2010 FIFA World Cup, and the construction industry continues to face tough times amid lower investment in infrastructure by government, low business confidence and lower foreign direct investment.

Business risk specialist Bryte Insurance points out in its 'Bryte Construction Activity Monitor 2017' report, published in July 2018, that public-sector infrastructure investment has been declining since 2009, leaving the industry reliant on investment by the private sector.

Consulting Engineers South Africa in October 2018 reported on the results of its Bi-annual Economic and Capacity Survey for the period from January to June 2018. It noted that there had been growth in the construction sector for the first time in six quarters during the period under review, and although this was mainly owing to investment by the private sector, it was unlikely that the private sector would continue to boost growth in the industry over the long term.

Market intelligence firm Industry Insight revealed in February 2019 that tender activity in the construction industry had decreased by 20% year-on-year in the fourth quarter of 2018, while tender award postponements had increased by 24% year-on-year.

Bryte's report further states that four of the top six large construction companies had lost between 50% and 75% of their share price in 2017, while some of these firms had lost more than 90% of their share price value by June 2018.

Amid the slow roll-out of infrastructure, in many cases the result of delays in the awarding of contracts by the public sector, several of the country's top construction firms have been struggling financially, prompting them to restructure their operations and sell lossmaking or noncore businesses. Subsequently, firms continue to reduce staff numbers as they rightsize operations for current market conditions.

Aveng reported in its 'Integrated Report 2018' that difficult operating conditions had prevailed in South Africa, restricting its ability to generate adequate cash flow from its domestic operations. After having undertaken a strategic review of the business, with the results thereof reported to shareholders in February 2018, Aveng decided on an action plan to improve its operational and financial position. This included simplifying the number of operating groups to two and business units to five; improving the revenue growth of its core operations; disposing of noncore businesses, such as its manufacturing businesses; and reducing its debt.

The group has made some progress in the execution of the plan, which will be concluded over a three-year period.

During 2018, Aveng had also been in discussions with Murray & Roberts (M&R) regarding a possible tie-up, but this was thwarted by ATON, one of M&R's largest shareholders, which is trying to take full control of M&R.

Another one of the country's biggest construction firms, Basil Read, also attempted to restructure its business in recent years. Following the completion of strategic review of the business in 2016, it had implemented a turnaround plan;

however, by early 2018, it was forced to enter into business rescue.

Months later, another large construction firm, Esor, suffered the same fate, also entering into business rescue. A smaller construction firm, privately owned Liviero Group, also filed for business rescue in mid-2018.

In March 2019, Group Five also entered into business rescue, citing financial distress. SBG Securities head of equity research Marc Ter Mors told Bloomberg in March 2018 that South Africa-orientated construction companies were faced with low volumes and pricing that was under pressure. He added that this prompted companies to take on more risk to secure contracts, resulting in thin margins and impacting on companies' cash flow.

Considering the tough domestic conditions, many firms continue to or have begun venturing outside of South Africa to pursue growth opportunities in the rest of Africa and other select markets. Bryte, however, points out that operating elsewhere in Africa can also be challenging, particularly with regard to regulatory governance and a shortage of technical skills.

Group Five, in particular, has had difficulties in rolling out an energy project, in Ghana, which has resulted in a legal dispute between it and its client.

The Construction Industry Institute Africa stated in November 2018 that the pursuit of contracts elsewhere in Africa would eventually result in skills migration from South Africa, which was likely to experience a shortage of capacity to execute construction projects in the long term.

The challenges that large construction firms face are also having a knock-on effect on subcontractors, which are also struggling to secure contracts and maintain staff levels.

Suppliers to the construction industry are also feeling the pinch and are also seeking opportunities abroad amid the slump in the South African construction sector. Business Day in March 2019 quoted Bell Equipment CEO Leon Goosen as saying that the company had, over the past two years, restructured its operations to take advantage of opportunities outside of South Africa, including in North America and Europe. The earthmoving vehicle supplier generates about 60% of its revenue outside of South Africa.

Safety concerns

The South African Forum of Civil Engineering Contractors (Safcec), the Association of South African Quantity Surveyors (ASAQS) and the South African Council for the Project and Construction Management Professions (SACPCMP) in March 2019 spoke out about gang-related activities on construction sites that were threatening the safety of personnel at construction sites.

Safcec had written a letter to Finance Minister Tito Mboweni, which it later also sent to President Cyril Ramaphosa, asking for urgent intervention to deal with so-called "construction mafia" activity that brought a halt to infrastructure projects, while also threatening the safety of professionals in the built environment. It said projects worth R25.50-billion were at risk.

Safcec warned that the "contruction mafia", comprising certain "business forums", intimidated foremen, project managers and construction bosses at project sites and demanded a stake in the projects. It stated that those involved in the "business forums" carried automatic weapons when demanding a stake in the projects, resulting in violent intimidation of those on site. It also said that, in some instances, fire was set to property and assets on site.

Safcec cited the interruptions at Sanral's Mtentu bridge contract and at a R2.40-billion oil storage project being built by WBHO in the Western Cape as examples of projects that had been impacted by such intimidation.

ASAQS, meanwhile, called on the National Prosecuting Authority (NPA) and the local police to intervene. The SACPCMP supported the call for interventions by the police and the NPA.

Picture by Creamer Media

Source: *Engineering News*


Picture by Creamer Media

KEY PARTICIPANTS

A number of large firms hold the biggest market share in South Africa's construction industry, but the industry is slowly transforming, enabling more emerging contractors to enter the market.

Engineering News quoted Industry Insight senior economist David Metelerkamp in July 2018 as saying that dynamics were changing in the construction industry, potentially leading to the demise of large contractors in the country. He explained during a stakeholders session hosted by construction materials provider AfriSam that more small and medium-sized enterprises (SMEs) were entering the market and taking over contracts that the large construction firms previously would have secured.

These SMEs had, as a result of government intervention to improve transformation in the industry, increased their market share to 40%, compared with 16% in 2012, while the market share of the larger firms had decreased to 45%, compared with 60% in 2012.

The move to greater transformation has exacerbated the financial and operational challenges of the large construction firms, with some of these firms having entered into business rescue and others increasingly pursuing opportunities overseas to offset their lower market share in South Africa.

AVENG

JSE-listed Aveng is a multidisciplinary construction and engineering group with operations in Africa; Australia, New Zealand and the Pacific; and South-East Asia.

Following various restructuring efforts in recent years, the group remained in a difficult financial position at the start of 2018, prompting a strategic review to identify which of its businesses and assets would support the group's long-term strategy of becoming an international infrastructure and resources group.

In February 2018, the group announced the results of the review, which included plans to dispose of noncore assets, including Grinaker-LTA and Trident Steel, certain manufacturing businesses and some property to focus on its core businesses – its Australian subsidiary McConnell Dowell and its contract mining business Moolmans.

Aveng				
	FY2018	**FY2017**	**H12019**	**H12018**
Revenue	R30.58-billion	R23.46-billion	R13.38-billion	R16.11-billion
Operating profit/(loss)	(R401-million)	(R5.40-billion)	(R484-million)	R94-million
Profit/(loss)	(R3.52-billion)	(R6.74-million)	(R920-million)	(R346-million)
Two-year order book	R17.90-billion	R29.90-billion	R19.50-billion	R25.10-billion

Source: Aveng Integrated Report 2018
FY – financial year

The group also set out to improve its balance sheet and reduce its net debt. In July 2018, the group concluded a rights offer, raising R493-million to help reduce its debt.

Further, it decided to redeem R2-billion of convertible bonds before they matured. This process was completed by September 2018.

These measures assisted the group in reducing its debt from R3-billion in 2017 to R1.80-billion in 2018. As a result, its debt-to-equity ratio decreased to 40%, from 127% in 2017.

As far as the sale of noncore businesses and assets are concerned, Aveng agreed in August 2018 to sell its Vanderbijlpark and Jet Park properties for R254-million. It also agreed in October 2018 to sell its rail business, which formed part of the group's manufacturing operations, to empowered firm Mathupha Capital for R133-million.

Further, Aveng agreed in January 2019 to sell its Aveng Water and Aveng Namibia Water businesses to Cambrose 735 for R95-million.

In February 2019, it announced the sale of its Aveng Infraset businesses, which includes businesses in South Africa, Zambia, Mozambique, Swaziland and Zimbabwe, to the Colossal Africa Consortium for up to R200-million. Colossal is a black-owned investment firm that was established by railway services and products provider Isongo Investments and materials supply company Colossal Africa Infrastructure.

The group revealed in the same month that it had decided not to sell Grinaker-LTA as a single going concern, but that it would rather implement a piecemeal sales process. *Engineering News* reported that negotiations with a potential buyer for the entire Grinaker-LTA had fallen through, as some of the businesses did not "belong together". The group explained at the time that parties interested in acquiring Grinaker-LTA's civil and construction business were not necessarily interested in also acquiring the mechanical construction and ground-engineering units. Good progress is being made on selling the civil and construction units of Grinaker-LTA and Aveng has established a data room for potential buyers of the other Grinaker-LTA businesses.

Aveng is targeting the end of June 2019 as the deadline for the sale of all noncore businesses.

Meanwhile, Aveng reported a headline loss of R1.68-billion for the financial year ended June 30, 2018, compared with a headline loss of R6.45-billion in the prior financial year, while its net loss narrowed to R3.52-billion, from R6.74-billion in the prior financial year. The losses included a R2.30-billion impairment charge pertaining to the adjustment in the valuation of noncore assets held for sale.

Further, the group's two-year order book stood at R17.90-billion as at June 30, 2018, compared with R29.90-billion as at June 30, 2017. The decrease was mainly the result of a decrease in McConnell Dowell's Australian dollar order book. The order book was also lower than the R25.10-billion recorded as at December 31, 2017.

McConnell Dowell's order book had decreased to A$800-million as at June 30, 2018, compared with A$1.20-billion as at December 31, 2017, while Moolmans' order book had decreased to R5.30-billion, compared with R6.70-billion as at December 31, 2017.

Aveng chairperson and then interim CEO Eric Diack commented in the group's Integrated Report 2018 that securing new contracts would remain a focus for McConnell Dowell and Moolmans during the 2019 financial year.

Management changes

Aveng appointed Sean Flanagan as CEO of Aveng in December 2018, effective from February 1, 2019. Flanagan, a former Murray & Roberts executive, succeeded Eric Diack, who was appointed interim CEO following the resignation of former CEO Kobus Verster in September 2017. Diack remains nonexecutive chairperson of Aveng.

In March 2019, Aveng announced that Jerome Govender had been appointed MD of Aveng's mining division, Moolmans, effective April 1. He was previously CEO of Concor Holdings swhen it was still part of M&R's infrastructure and building division.

Source: *Engineering News*

In November 2018, Aveng reported that McConnell Dowell had secured a further R3.80-billion worth of orders for infrastructure and resources projects in Australia, New Zealand, Singapore and Thailand, taking its order book to R8.70-billion. It reported in January 2019 that McConnell Dowell's order book had increased further to R11.40-billion as at December 31, 2018.

Aveng's financial results for the six months to December 31, 2018, were negatively impacted on by the performance of the Moolmans business, which incurred a net operating loss of R166-million as a result of challenges experienced at the Gamsberg zinc mine, located in South Africa's Northern Cape province.

Aveng Strabag JV terminates Mtentu bridge contract

The Aveng Strabag joint venture (ASJV), which won the bid for the R1.65-billion contract to build the Mtentu megabridge in September 2017, as part of the South African National Roads Agency Limited's (Sanral's) N2 Wild Coast road, in the Eastern Cape, announced in February 2019 that it had terminated the contract.

In late January 2019, Aveng confirmed to *Engineering News* that it had called force majeure at the construction project, which its subsidiary Grinaker-LTA was building with European construction firm Strabag. As a result, the ASJV had not returned to the construction site in mid-January, as planned, over concerns about the safety of its employees.

Towards the end of 2018, residents from surrounding communities held protests at the Mtentu site over the lack of jobs being offered to them by Sanral. The roads agency had reported that some of the protests had turned violent, prompting it to suspend work at the site in October 2018.

Sanral told *Engineering News* in January 2019 that the project was about six months behind schedule, but that it had negotiated with the community members and other stakeholders, and that a resolution was reached on the way forward for dealing with outstanding issues between the parties. The parties had agreed that work would resume on January 14, 2019, Sanral said.

Aveng, however, told *Engineering News* that the ASJV did not believe work at the site could continue safely and that it, therefore, decided to declare force majeure.

In February, it said the ASJV sought external legal advice and elected to terminate the contract, given the risk to the safety of its employees.

Sanral, however, disagreed that the site was unsafe for the ASJV's employees and issued a termination to the contractor "for abandoning the site". The roads agency further speculated that Aveng's financial position might be behind the ASJV's decision to terminate the contract.

ASJV, however, refuted Sanral's claims, stating in a February 2019 statement that the termination "had nothing to do with either of the ASJV members' financial ability to perform their obligations".

Towards the end of February 2019, Sanral engineering executive Louw Kannemeyer told *Engineering News* that the Mtentu bridge would be built. While a legal challenge between the roads agency and the ASJV over project guarantees was ongoing, he said Sanral was confident other international firms would be willing to build the bridge. Once the legal challenge was settled, the roads agency would be in a position to take a decision on the way forward. Once legal issues are resolved, Kannemeyer believes a further five months will be needed for a new, extended tender period. It would take a further 12 months to complete the tender process, tender award, obtain the required labour permits and mobilise on site, he told *Engineering News*.

Meanwhile, the North Gauteng High Court in March 2019 dismissed the ASJV's pre-emptive application to prevent Sanral from making a call on a R245-million performance guarantee and an R82-million retention money guarantee. The pre-emptive application was aimed at preventing Sanral from making a call on the two bonds until the parties had resolved their dispute. No reasons were provided for the court's decision to dismiss the application and the ASJV plans to appeal the ruling.

Source: *Engineering News*

Engineering News reported in February 2019 that the material being handled at the mine was more abrasive than had been expected, resulting in higher wear and tear that negatively affected the availability of the mining fleet.

Aveng's net loss for the six months to December 31, 2018, widened to R920-million, from R346-million in the prior comparable period. Revenue decreased to R13.38-billion, from R16.11-billion in the prior comparable period, while the group incurred a R484-million operating loss, compared with the operating profit of R94-million posted for the prior comparable period.

Aveng reported that McConnell Dowell had achieved a satisfactory performance during the six months, achieving a net operating profit of R55-million, compared with R51-million in the prior comparable period.

Further, Aveng's two-year order book had improved to R19.50-billion, compared with R17.90-billion as at June 30, 2018, supported by McConnell Dowell's order book in Australia, New Zealand and South-East Asia. South Africa now accounted for only 37% of the group's order book, while Australasia contributed 40%.

BASIL READ

Basil Read is a South Africa-focused construction and engineering group that has faced significant financial strain in recent years, eventually resulting in the group's entering into business rescue in June 2018.

The company, which had once been a group of companies with various subsidiaries, restructured the business in 2015 to become a group with five divisions – Construction, Developments, Mining, Roads and the St Helena Airport project.

Despite the restructuring efforts, the group reported a R53.65-million net loss for the 2016 financial year, which widened further to a R1.01-billion loss for the 2017 financial year, ended December 31, 2018.

Although the group had managed to raise R300-million in a rights offer during February 2018, the group and its Construction division, in particular, continued to struggle with cash flow constraints.

The group endeavoured to raise bridge financing from a consortium of lenders to enable the Construction division to finalise its construction contracts while it sought to dispose of noncore assets and implement certain operational improvement projects.

However, the group announced in June 2018 that the consortium of lenders it had been in negotiations with regarding the potential bridging finance were not prepared to make the required funding available to Basil Read unless it entered into business rescue.

The group determined that, without the funding, it would be in financial distress and opted to enter into voluntary business rescue proceedings.

The group appointed Siviwe Dongwana of Adamentem Chartered Accountants and John Lightfoot of Matuson and Associates as business rescue practitioners (BRPs).

The BRPs in August 2018 published a business rescue plan, which it presented to creditors for approval in early September 2018.

In late September 2018, 99% of creditors voted in favour of the plan.

According to a Business Report article, published in October 2018, the business rescue plan set out to ensure the completion of construction projects that were in progress, as well as the sale of assets, while minimising job losses. Among the assets to be sold were development land at the Kliprivier Business Park and Rolling Hills, Basil Read's head office, and construction plant and equipment. According to the article, the assets would be sold between January 2019 and February 2020.

The article further mentioned that the BRPs were open to considering offers to buy Basil Read Mining.

In January 2019, online news publication Moneyweb reported that the business rescue was not going according to plan, with R40-million of post-commencement financing having been withdrawn. Further, progress in the sale of noncore assets was slow. The news article stated that the BRPs might have to consider revising the business rescue plan in light of the challenges. The BRPs also indicated that the number of people employed by Basil Read had been significantly reduced from the 4 370 employees at the time of filing for business rescue.

In a February 2019 update to shareholders published by the BRPs, they revealed that they intended to use the proceeds from the disposal of Basil Read's noncore assets for post-commencement financing (PCF); however, despite there being some interest from parties wanting to acquire the noncore assets, there have been "few committed buyers". The BRPs stated that this had contributed to further liquidity constraints for Basil Read.

Nevertheless, the BRPs had, in February 2019 approved Basil Read Mining Botswana's sale of a 28% interest in the Majwe Joint Venture (JV), in Botswana, to Thiess Botswana and Bothakgwa Burrow Botswana for R110.50-million. The proceeds would be used as working capital for the mining business, as well as for the repayment of a portion of the PCF.


Picture by Creamer Media

The BRPs further noted that they were seeking to secure bridging finance. In the meantime, they would remain focused on completing profitable construction contracts, cancelling onerous contracts, resolving outstanding claims, selling noncore assets, reducing fixed overheads and reducing labour costs as part of the business rescue plan.

ESOR

	FY2018	FY2017
Revenue	R959.38-million	R1.37-billion
Operating profit/(loss)	(R291.53-million)	(R160.84-million)
Profit/(loss)	(R306.94-million)	(R139.76-million)
Order book	R881-million	R1.54-billion

Source: Compiled from Esor Integrated Report 2018.
FY – financial year

Multidisciplinary construction and development group Esor has also faced insurmountable challenges in the South African construction market during and after the 2018 financial year, ended February 28, 2018, forcing it in August 2018 to file for the business rescue of its construction division.

Recognising the changes in the local construction industry, after the 2010 FIFA World Cup construction boom, in recent years Esor shifted its attention away from the civil- and building-related construction market increasing its focus on the water infrastructure market. The group reported in its 'Integrated Report 2018', published in June 2018, that water infrastructure accounted for about 50% of its activity, followed by infrastructure, at 35%, with the balance of work being in the niche geotechnical and trenchless rehabilitation sector.

The report further states that, while there was a gap in the water infrastructure market and government had committed to investing in this sector, such investment did not materialise, with delays at national, provincial and municipal level in the start of water projects, while water boards have cancelled contracts and delayed the awarding of contracts.

Esor pointed out that the non-award of contracts and further business restructuring had resulted in its staff complement decreasing to 1 478, compared with 2 471 in the previous financial year. Further, it also contributed to a decrease in its order book to R881-million as at February 28, 2018, compared with the order book of R1.54-billion as at the end of the prior financial year.

Despite the challenges in the water sector, the group assured shareholders that it still saw potential future opportunity in the water infrastructure sector. It, therefore, planned to remain focused on the water infrastructure sector and increase its exposure to mining projects and projects in neighbouring countries while it waited for a resumption in investment and execution of water infrastructure projects in South Africa.

Meanwhile, some of the water infrastructure projects Esor had secured continued to weigh on its financial performance during the 2018 financial year. Its revenue fell to below R1-billion (2017: R1.37-billion), while its operating loss widened to R291.53-million, compared with the loss of R160.84-million reported for the 2017 financial year.

Its net loss also increased to R306.94-million, compared with the loss of R139.76-million incurred in the 2017 financial year. The group reported in its integrated report that the losses were the result of further losses incurred at the Western and Northern Aqueduct projects, owing to project delays caused by community unrest.

In August 2018, Esor announced that its Esor Construction subsidiary, which controls its infrastructure, building and housing, pipelines, sanitation and pipe services businesses, had filed for business rescue, after a consortium of financiers voiced their unwillingness to provide the subsidiary with funding outside of a business rescue process.

The group nominated Hans Klopper and Dawie van der Merwe of BDO Business Restructuring as the BRPs for the business rescue process.

In mid-February 2019, the BRPs published an update on the business rescue proceedings, stating that liquidation should be avoided, as this would only benefit secured creditors and employees. The BRPs added that they were of the view that there was potential to develop and implement a business rescue plan for Esor that would enable it to remain solvent, but emphasised that this would require a reorganisation of Esor's financial affairs and arrangements with creditors regarding its liabilities.

GROUP FIVE

	FY2018	FY2017
Revenue	R7.35-billion	R9.96-billion
Operating profit/(loss)	(R1.43-billion)	(R718-million)
Profit/(loss)	(R1.30-billion)	(R840-million)
Order book	R11.20-billion	R14.50-billion

Source: Group Five Integrated Report 2018
FY – financial year

Group Five concerns itself with project development, investment, construction, operations and maintenance, as well as the manufacture and supply of construction projects. It operates in the infrastructure, energy, resources and real estate sectors, mainly in sub-Saharan Africa, but also in some European countries.

In South Africa, the group, which filed for business rescue in March 2019, continued to face market pressures in recent years. Its operating loss for the 2018 financial year, ended June 30, 2018, widened to R1.43-billion, compared with the loss of R718-million in the prior financial year, as a result of delays in contract awards, the cost of retrenchments and further losses incurred on the Kpone oil- and gas-fired combined-cycle power project, in Ghana, where the group was the engineering, procurement and construction (EPC) contractor. The loss on the Kpone project for 2018 was R1.30-billion.

Revenues, meanwhile, decreased by 26.20% year-on-year to R7.35-billion (2017:R9.96-billion).

The operational challenges during the year prompted the group, after much analysis and consultation, to transform into "an infrastructure solutions company", and to shift its focus towards its Developments & Investments (D&I) and Operations & Maintenance (O&M) businesses, with less focus on the Construction and EPC businesses. It was decided that the D&I and O&M businesses would include Group Five's Intertoll Europe and Africa and G5 Properties assets, which would focus on the roads, water, power and real estate infrastructure sectors.

Further, the group had still planned to sell a majority portion of its South African construction business, in line with its commitments under the Voluntary Rebuilding Programme (VRP) agreement signed with government in 2016; however, the group was planning to stabilise the business first.

Engineering News reported in October 2018 that these developments would result in Group Five being downsized to a much smaller company.

During the 2018 financial year, the group cut 1 000 jobs, which included 600 permanent jobs, taking its staff complement to 7 300, a significant decrease from 12 500 in 2010.

The group's overall order book had decreased to R11.20-billion in the 2018 financial year (2017: R14.50-billion), as its contracting order book decreased to R6.40-billion (2017: R8.70-billion) and its secured O&M contracts decreased to R4.80-billion (2017: R5.80-billion).

The Kpone project also continued to weigh heavily on Group Five. In early October 2018, the group reported that it expected the project, which had initially been due for completion in 2017, would be finalised later that month. However, news wire service Reuters reported in November 2018 that the project's completion had again been delayed, owing to fuel contamination. Reuters quoted Group Five as stating that the fuel provision was the responsibility of its client Cenpower Generation, which had instituted a claim of $62.70-million against Group Five for earlier project delays. Group Five disputed the claim.

In December 2018, the group reported that Cenpower had served it with a notice of termination of the contract, which the group considered to be "wrongful" and a "repudiation of the contract".

Despite having paid Cenpower the demanded $62.70-million, the group said it would continue to challenge the liability for the delay damages through a dispute resolution mechanism set out in its contract with Cenpower.

Further, it also approached the International Chamber of Commerce, in Paris, France, for assistance in resolving the dispute, which it said would be a faster process than arbitration. The dispute resolution process had been expected to be completed in early 2019, although it was unclear by March 2019 if this had been concluded.

Three days after serving Group Five with the notice of termination, Cenpower instituted a further claim of $60.50-million against Group Five to cover the costs of completing the Kpone project, as well as to recoup losses and damages incurred as a result of the project delays. Group Five did not believe it was liable for the amount claimed, as it had completed the construction of the plant, with only the testing and commissioning still to be completed. It stated that testing of the plant could not be finalised, as a result of the contaminated fuel provided by Cenpower.

Group Five had received welcome news in mid-December 2018 when a number of undisclosed parties expressed an interest in acquiring parts of the business.

In January 2019, the group announced that it had reached an agreement with a consortium comprising Trinitas Private Equity and Agile Capital to buy its Everite and Sky Sands businesses, which form part of the group's manufacturing cluster, for R480-million. The last remaining asset in the group's manufacturing cluster, Barnes Reinforcing Industries, would be sold to Group Five's joint venture partner in the business, the Barnes family.

However, the group's financial situation took a turn for the worse in early 2019, prompting it to file for business rescue of the group, as well as for Group Five Construction (G5 Construction), in March 2019. In an update to shareholders, the group said it had experienced cash flow difficulties, significant operating losses and negative cash flows from G5 Construction and its subsidiaries. The situation was exacerbated by the calling of guarantees by Cenpower with regard to the Kpone project.

Group Five pointed out, at the time, that G5 Construction had, in February 2019, sought additional bridge funding from its lending consortium, but this was declined in early March 2019. Given that Group Five and G5 Construction would be facing financial distress, the group decided it would be prudent to file for business rescue.

Picture by Creamer Media

Group Five filed for business rescue on March 12, 2019

David Lake and Peter van den Steen of Metis Corporate Advisory have been appointed as BRPs for Group Five and G5 Construction.

The group also requested a voluntary suspension of its shares on the JSE.

It is unclear whether the sale of the Everite, Sky Sands and Barnes Reinforcing Industries will proceed in light of the business rescue proceedings.

The BRPs noted in a separate statement in March 2019 that the subsidiary companies for Group Five and Group Five Construction, namely those subsidiaries in the Investments and Concessions and Manufacturing clusters, would continue to operate as going concerns and did not fall directly into business rescue proceedings.

However, the BRPs are still responsible for identifying the optimal way forward for all group entities and are assessing the viability of ongoing projects and contracts, as well as the evaluation of expressions of interest for the acquisition of certain group entities and the sales processes that are already under way in respect of some of the businesses.

Following the first business rescue meeting with Group Five's creditors on March 27, 2019, the BRPs requested an extension of the deadline for the submission of a business rescue plan to June. The BRPs said Group Five's business rescue was arguably one of the most material business rescues that was taking place in South Africa.

Currently, Group Five has liabilities of R4.60-billion against assets of R2.20-billion. The BRPs have said that they remain focused on minimising retrenchments, preserving and continuing the operating businesses, delivering projects that are viable and maximising the returns to the group's creditors.

"Our initial evaluations have indicated that even against the risks and challenges that might derail the business rescue process, with the cooperation of all stakeholders there is a reasonable prospect of the business rescue being successful," the BRPs have said.

Meanwhile, diversified miner Exxaro Resources, in March 2019, terminated its agreement with Group 5 Projects, a subsidiary of Group Five Construction, for the construction of a new small coal plant as part of the Grootegeluk Plant 6 expansion project at the Grootegeluk mine, in Limpopo. Exxaro said it had made the decision following Group Five's announcement of its entering into business rescue.

Management changes

In December 2018, Group Five appointed Anthony Clacher CFO, with immediate effect, to succeed Christina Teixeira, who announced her resignation in October 2018. Group Five said at the time that Clacher's experience in restructuring businesses, asset disposals and overcoming challenging businesses environments would be helpful to the group as it restructures.

In February 2019, the group's CEO Themba Mosai announced his resignation. He had served as interim CEO from March 2018 until May 2018 when he was appointed CEO. Nonexecutive director Dr Thabo Kgogo has stepped in as interim CEO while the board seeks a successor.

Source: *Engineering News*

MURRAY & ROBERTS

	FY2018	FY2017	H12019	H12018
Revenue	R21.85-billion	R21.40-billion	R9.78-billion	R11.81-billion
Operating profit/(loss)	R863.80-million	R486.80-million	R376-million	R349-million
Profit/(loss)	R267.80-million	R38.20-million	R188-million	R107-million
Order book	R30.10-billion	R26.90-billion	R31.70-billion	R22.10-billion

Source: Murray & Roberts Integrated Annual Report 2018 and reviewed interim results for the six months ended December 31, 2018

FY – financial year

After transitioning out of the infrastructure and building sectors in recent years, Murray & Roberts (M&R) is now a multinational engineering and construction group with three business platforms – oil and gas, metals and minerals, and power and water. It is headquartered in Johannesburg and has a presence in Mozambique, Zambia, Ghana, Australia, South Korea, Scotland, the US and Canada.

The company posted an improved financial performance for the financial year ended June 30, 2018 – its first full financial year since its restructuring. Revenue increased marginally to R21.85-billion (2017: R21.40-billion), but its profit increased to R267.80-million, from R38.20-million in the 2017 financial year. Its order book also improved to R30.10-billion, compared with R26.90-billion as at the end of June 30, 2017.

The oil and gas platform delivered an operating profit of R209-million in the 2018 financial year, compared with an operating profit of R217-million in the prior financial year, while the underground mining platform's operating profit increased to R471-million, compared with an operating profit of R464-million in the prior year.

The operating profit of the power and water platform, however, decreased to R134-million, from R171-million in the 2017 financial year, mainly as a result of the phased completion of the Medupi and Kusile coal-fired power station projects.

During the financial year, M&R continued to seek growth opportunities in its core markets, as well as in complementary markets for its oil and gas, and power and water platform. The company noted in its 'Integrated Report 2018', published in August 2018, that there had been a noticeable decline in large project opportunities in the core liquefied natural gas (LNG) market in Australia, which was impacting on the oil and gas platform. While the company expects investment in the LNG market to pick up again in months to come, the platform has progressed into operating in the Australian metals and minerals and infrastructure markets. The platform secured significant projects from miners BHP and Alcoa, in Australia, and from Rio Tinto, in Mongolia.

Hydropower megaproject

Murray & Roberts' Clough subsidiary – as part of the Clough Salini joint venture – was selected in January 2019 as the preferred bidder for about A$4-billion worth of civil works packages for the Snowy 2.0 project, in Australia. The project is expected to expand the generation capacity of Snowy Hydro's Snowy Mountains hydroelectric Scheme by 2 000 MW by 2024.

Source: *Engineering News*

In February 2019, M&R announced that its Clough subsidiary would acquire Houston-based oil- and gas-focused EPC contractor Saulsbury's Gulf Coast downstream assets, its chemical business unit and its EPC portfolio for $5.20-million. M&R CEO Henry Laas stated that the acquisition would enable M&R's oil and gas platform to deliver projects in a "rapidly growing" market.

Clough, which provides services to its US and Canadian clients through its CH-IV Internatonal and Clough Enercore subsidiaries, plans to market its new EPC capability to its clients operating in America, including Exxon, Chevron, ConocoPhillips and Shell.

Further, as the Medupi and Kusile projects are nearing completion, the power and water platform is seeking long-term opportunities in new segments of these markets in South Africa and the rest of Africa. During the 2018 financial year, the platform generated 97% of its revenue in South Africa and 3% on the rest of the continent.

The platform is seeking opportunities for potential acquisitions in the electricity transmission, industrial water treatment and petrochemical maintenance sectors to complement its existing capabilities.

M&R further noted in its report that the platform entered into memorandums of understanding with potential partners for the establishment of joint ventures in areas such as electricity transmission and distribution.

The company acquired South African company Optipower for R37-million in early 2019, which will assist it in entering the transmission, distribution and substation sectors of the energy market, . M&R is hoping to provide services to power utility Eskom, which is planning extensive transmission work in South Africa. It is also pursuing potential opportunities in Mozambique, Kenya, Ghana, Angola and Uganda.

The company, meanwhile, sees good growth opportunities for its underground mining platform as demand for commodities increases and prices recover, leading to higher levels of exploration and mining expansions. It warns, however, that the platform will face challenges such as higher levels of working capital and increased competition for technical skills.

During the 2018 financial year, the underground mining platform earned 37% of its revenues in South Africa, 33% in the Americas, 12% in Oceania, 10% in Asia and 8% in the rest of Africa.

Meanwhile, the group's undergound mining-related order book had increased to R25.70-billion in the six months ended December 31, 2018, making up the majority of the group's R31.70-billion total order book. The underground mining platform's current projects, as at March 6, 2019, included 18 vertical shaft-sinking and equipping projects, 21 decline shaft and mine development projects, eight contract mining projects and 13 support and construction services projects. These projects were spread across Australia, Indonesia, Mongolia, the US, Canada, Mexico, Zambia and South Africa.

M&R Cementation, which is part of the M&R Underground Mining platform, secured a shaft sinking contract in March 2019 for a 1 200 m deep ventilation shaft at Palabora Mining Company's Palabora copper mine, in Limpopo. The project is expected to be completed by May 2022.

Further, M&R Cementation Americas in March 2019 acquired Terra Nova Technologies, which designs, supplies and commissions overland conveyors; crushing/conveying systems; mobile stacking systems, including dry stack tailings and heap leach systems; crushing and screening plants; and in-pit crushing and conveying systems, for $38-million. The acquisition is expected to complement M&R's Underground Mining platform's engineering and construction services in the Americas region.

Murray & Roberts order book					
Platform	**Order book**	**Near orders**	**Category 1**	**Category 2**	**Category 3**
Oil and gas	R4.40-billion	R14.20-billion	R33.20-billion	R73-billion	R298.70-billion
Power and water	R1.60-billion	None	R4.20-billion	R9.30-billion	R26.30-billion
Underground mining	R25.70-billion	R8.10-billion	R20.50-billion	R31.30-billion	R22-billion
Total	R31.70-billion	R22.30-billion	R57.90-billion	R113.60-billion	R347-billion

Source: Compiled from Murray & Roberts reviewed interim results for the six months to December 31, 2018
Near orders: Tenders where the group is the preferred bidder and the final award is subject to financial or commercial close.
Category 1: Includes tenders the group is working on, but excludes near orders.
Category 2: Includes budgets, feasibility studies and prequalifications the group is working on.
Category 3: Includes opportunities that are being tracked and that are likely to come to the market within the next 36 months.

The oil and gas and water platforms were still being impacted on by lower levels of client investment and delays and deferrals of new projects during the interim period to December 31, 2018, which contributed to the group's diluted continuing headline earnings a share decreasing by 2% year-on-year to 54c.

Further, M&R's revenue from continuing operations decreased by 17% year-on-year to R9.80-billion for the interim period.

M&R was confident that market conditions in the oil and gas sector would show some improvement during the second half of the 2019 financial year. It also pointed out in March 2019 that many oil and gas projects were still at the prefeasibility stage and only likely to come to the market in about three years.

Meanwhile, during the 2018 financial year, German family-owned business ATON made an offer to acquire all shares in M&R at R15 a share. M&R had repeatedly argued that this was lower than what the company was worth, stating that its shares were worth R20 to R22 a share. ATON later increased its offer to M&R shareholders to R17 a share and eventually acquired a 44% interest in M&R, triggering a mandatory offer to other M&R shareholders. The mandatory offer was open until March 31, 2019.

Simultaneously, ATON also succeeded in acquiring a 25.40% interest in Aveng, with which M&R was planning to merge. ATON was opposed to the proposed tie-up between Aveng and M&R, prompting M&R to eventually withdraw its acquisition offer to Aveng.

By mid-February 2019, M&R CEO Henry Laas told Business Report that ATON was likely to obtain the required regulatory approvals to proceed with its hostile takeover of M&R. He did note, however, that the competition authorities were likely to attach conditions to the planned takeover.

M&R reported in March 2019 that the merger had received conditional approval from authorities in Zambia and unconditional approval from authorities in Namibia. Merger approval is still under consideration by the relevant authorities in South Africa and Canada.

As a result of the outstanding approvals by the South African and Canadian competition authorities, ATON in March 2019 extended the long stop date for the transaction to June 30, 2019.

RAUBEX

	H12019	**H12018**
Revenue	R4.48-billion	R4.67-billion
Operating profit/(loss)	R157.82-million	R370.56-million
Profit/(loss)	R95.84-million	R254.96-million
Order book	R8.41-billion	R7.52-billion

Source: Raubex unaudited interim results for the six months ended August 31, 2018
H1 – first half

JSE-listed Raubex is an infrastructure development and construction materials supply group that operates in South Africa, Botswana, Namibia, Mozambique, Cameroon, Zambia and Western Australia. The group has three divisions. The construction division focuses on road construction, rehabilitation and related infrastructure, while the infrastructure division operates in the energy, rail, telecommunications and housing infrastructure markets. Its materials division supplies aggregates, offers materials handling and screening services to the mining industry and provides mobile crushing equipment.

Raubex has, in recent years, highlighted the challenging market conditions in the South African construction industry and, in particular, in the road construction sector. This trend continued into the first half of the group's 2019 financial year, with CEO Rudolf Fourie reporting in October 2018 that a low volume of work in the road construction sector had forced it to rightsize its asphalt and bitumen supply operations.

Picture by Creamer Media

The group's revenue for the six months ended August 31, 2018, decreased by 4% year-on-year to R4.48-billion, compared with R4.67-billion reported for the first half of the prior financial year. Its operating profit decreased by 57.40% year-on-year to R157.80-million, compared with the R370.56-million in the prior comparable period.

Net profit decreased by 62.40% year-on-year to R95.84-million, compared with the R254.96-million reported for the prior comparable period.

Raubex reported that the road-surfacing and rehabilitation subdivision, which falls under its construction division, had experienced a significant reduction in the volume of work put out to tender by the South African National Roads Agency Limited (Sanral), which negatively impacted on those subsidiaries that supply asphalt and bitumen to Raubex contracts and other road maintenance projects.

The group pointed out that asphalt sales volumes had decreased by 35% year-on-year. To better match demand, those subsidiaries were rightsized, resulting in the retrenchment of 280 employees.

The road construction and earthworks subdivision was also negatively impacted on by the lower volumes of work put out to tender by Sanral, as well as by delays in provincial contracts, which resulted in 29 employees being retrenched as part of the rightsizing of this subdivision.

Raubex's infrastructure division, meanwhile, experienced favourable conditions during the six months and continued to expand its affordable housing and commercial building operations.

The division has also secured renewable-energy projects that started in the second half of the 2019 financial year. The division, however, also undertook limited rightsizing, with 32 employees being retrenched.

Meanwhile, Fourie reported in October 2018 that the group's materials division had been the main contributor to earnings for the six months to August 31, 2018. The division contributed 121.50% of the group's operating profit for the six months, offsetting the losses incurred in the construction division.

Also on a positive note, the group's secured order book increased to R8.41-billion as at August 31, 2018, compared with the order book of R7.75-billion as at August 31, 2017. Contracts in the rest of Africa and in Australia comprised 23.70% of the order book, as the group pursues opportunities abroad to offset the challenging conditions in the South African construction sector.

The order book for Sanral, however, decreased by 61.40% to R562.70-million, compared with the order book of R1.46-billion in the prior comparable period.

Sanral defends itself

In an opinion piece published by Business Report in November 2018, South African National Roads Agency Limited (Sanral) CEO Skhumbuzo Macozoma said the State-owned entity was not to blame for the profitability challenges being faced by the construction industry.

"Construction companies ascribe their weak annual results and failure to report profits primarily to Sanral's supposed failure to issue tenders for road construction projects," he stated, adding that the entity had become a "convenient scapegoat".

He further noted that Sanral had been upfront with the construction industry about the regulatory challenges it was facing in terms of issuing new contracts for road construction, rehabilitation and maintenance, and said the entity was working with the National Treasury to find "workable solutions" to those challenges.

He denied, however, that all Sanral contracts had come to a halt, stating that various projects were under way or about to get under way. He further pointed out that the construction companies were ignoring other possible factors that could be contributing to their weak financial performances, including macroeconomic issues, cost overruns and missed deadlines.

Source: Business Report

Raubex has, nevertheless, secured more work in the affordable housing and commercial building sector, as well as in the renewable-energy sector.

Raubex, which will release its financial results for the 2019 financial year in May 2019, warned in February 2019 that its earnings a share would decrease by at least 46.70c a share from the 233.50c reported in the 2018 financial year. It further warned that its headline earnings a share for the financial year would decrease by 45.70c from the 228.60c reported for the prior financial year.

The company attributed the lower earnings to weak trading conditions that had negatively impacted on its road construction and its road rehabilitation and maintenance operations.

The materials division had, however, benefited from stable operating conditions during the financial year, while the infrastructure division had benefited from affordable housing contracts. The infrastructure division is also expected to benefit from renewable-energy contracts going forward.

STEFANUTTI STOCKS

	FY2018	FY2017	H12019	H12018
Revenue	R10.49-billion	R9.15-billion	R5.13-billion	R5.19-billion
Operating profit/(loss)	(R451.09-million)	(R106.40-million)	R124.81-million	R109.78-million
Profit/(loss)	(R508.04-million)	(R149.79-million)	R104.10-million	R73.44-million
Order book	R14.10-billion	R13.80-billion	R12.80-billion	R14.30-billion

Source: Stefanutti Stocks Integrated Annual Report 2018
and unaudited consolidated results for the six months ended August 31, 2018
FY – financial year

Multidisciplinary construction group Stefanutti Stocks operates in South Africa, Benin, Botswana, Mozambique, Namibia, Nigeria, Sierra Leone, Swaziland, Tanzania and Zambia. It has also established a presence in Dubai and Abu-Dhabi, in the United Arab Emirates. The group's activities include building; civil engineering; electrical and instrumentation; geotechnical; marine; mechanical and piping; mining services; pipelines, roads and earthworks; and general contracting.

Picture by Creamer Media

Despite the continuing difficult trading conditions experienced during the group's 2018 financial year, ended February 28, 2018, Stefanutti managed to increase its revenue to R10.49-billion, from R9.15-billion in the 2017 financial year. Chairperson Kevin Eborall noted in the group's 'Integrated Annual Report 2018' that higher revenue from mining contracts and contracts in other parts of sub-Saharan Africa had offset the slower activity in other sectors in which Stefanutti operates.

He further pointed out that the group had rightsized and consolidated some of its business units, while eliminating lossmaking contracts and improving cash management and operational controls.

This resulted in an increase in adjusted net profit to R216-million, compared with R202-million in the 2017 financial year. The adjusted profit excludes a R667-million impairment.

Meanwhile, CEO Willie Meyburgh pointed out in the group's annual report that about 30% of its work in the 2018 financial year had been undertaken outside of South Africa. Of the group's R14.30-billion order book as at the financial year-end, R4.90-billion was for work outside of South Africa.

He added at the time of the release of the annual report in June 2018 that there were likely to be some growth opportunities for the group in South Africa's surface mining, openpit mining, petrochemicals, water and sanitation and residential development sectors in the months ahead. Outside of South Africa, the group expected to see increased activity in the road and bridge construction, marine and mixed-use building development sectors.

However, amid a "demanding" trading environment in the six months ended August 31, 2018 – the first half of the group's 2019 financial year – its revenue decreased marginally to R5.13-billion, from the R5.19-billion reported for the first half of the prior financial year. Its operating profit, however, increased to R124.81-million, compared with R109.78-million in the prior comparable period.

The group's order book stood at R12.80-billion as at August 31, 2018, which R3.80-billion was for contracts outside of South Africa.

Stefanutti reported in November 2018 that the Roads & Earthworks, Mining Services and Swaziland divisions, which form part of its Construction & Mining business unit, had delivered good results during the first six months of the 2019 financial year. While public-sector infrastructure contracts were slow to materialise, contract awards in the mining sector increased. Within the group's building business unit, the Mozambique and Coastal division performed well during the interim period, but the Inland division was struggling amid a decrease in available contracts.

Stefanutti expects the slowdown in construction activity in South Africa to continue, but it still sees some opportunities for growth in surface and openpit mining, urban developments, petrochemicals, pipelines and water and sanitation treatment.

WBHO

	FY2018	FY2017	H12019	H12018
Revenue	R35.03-billion	R31.91-billion	R20.11-billion	R18.09-billion
Operating profit/(loss)	R1.05-billion	R986.30-million	R23.90-million	R484.71-million
Net profit (loss)	R843.45-million	R771.22-million	R79.24-million	R404.01-million
Order book	R49-billion	R45-billion	R50.11-billion	R52.41-billion

Source: WBHO Integrated Report 2018 and unaudited results for the six months ended December 31, 2018

FY – financial year

H1 – first half

JSE-listed Wilson Bayly Holmes-Ovcon (WBHO) is a multidisciplinary construction group with offices across South Africa. Besides South Africa, it also operates in various other African countries and it has a presence in the Australian and UK markets. The group has three main operating divisions – building construction, civil engineering, and roads and earthworks.

WBHO CEO Louwtjie Nel commented in the group's 'Integrated Report 2018' that the operating environment in South Africa and the rest of Africa had remained subdued during the financial year ended June 30, 2018. Opportunities in the Australian construction market were, however, more promising.

Group revenue for the financial year increased by 10% to R35.03-billion (2017: R31.91-billion), mainly as a result of an 18% year-on-year increase in revenue from its Australian operations and offset by a 2% decrease in revenue from the African operations, which includes the South African operations. WBHO attributed the decrease in revenue from the African operations to lower activity within the building markets and the impact thereof on the group's construction materials business.

The report further states that the building and civil engineering business faced a difficult financial year, with revenue down 10% year-on-year as a result of the completion of megaprojects in the prior financial year and few new contracts coming to market.

The roads and earthworks division, meanwhile, increased its revenue by 15% year-on-year to R5.30-billion; revenue from South Africa was flat at about R3.40-billion, but revenue from the rest of Africa grew by 63% to R1.80-billion.

The group's Australian business recorded a 22% year-on-year increase in revenue to A$2.20-billion, as a result of growth of 14% year-on-year from the building division and 86% growth from the infrastructure division.

WBHO's geographical diversification has helped offset the lower growth in Africa with higher growth in the Australian and UK markets.

The group first entered the UK market through its 2017 acquisition of a 40% interest in frame contractor Byrne Group. WBHO increased its interest in Byrne Group to 80% during the 2018 financial year.

In July 2018, it also acquired a 60% interest in Manchester-based contracting business Russells and Russell Homes, which buys land and undertakes planning applications in respect of residential schemes. The acquisition gives WBHO access to the UK residential property market.

Meanwhile, the group's order book increased by 8.90% to R49.20-billion in the 2018 financial year (2017: R44.90-billion). While the order books of the building and civil engineering, and roads and earthworks, divisions decreased, the group's order book in Australia increased.

The acquisition of Russells will add a further R4.60-billion to the group's order book, taking it to R53.80-billion.

On a less positive note, WBHO reported in February 2019 that the "botched" Western Roads Upgrade (WRU) road design and build project in Melbourne, Australia, had resulted in the group's operating profit for the six months ended December 31, 2018, decreasing to R2.72-million, from the R509.60-million reported for the six months ended December 31, 2017. *Engineering News* quoted Nel as explaining that the project's technical specifications had been incorrectly interpreted and that this had led to the underestimation of the physical work required to meet those specifications.

WBHO has made provision for a loss of $50-million on the project and would also consider possible recovery options to try to reduce those losses.

The WRU project, which is now under way, is now led by a strong project team.

Meanwhile, the group's African business had performed well during the six-month period, while the Byrne Group had returned to profitability and Russells Limited had achieved profitability in line with expectations, *Engineering News* reported.

WBHO's revenue increased to R20.10-billion, from R18.10-billion in the prior comparable period, while its order book increased to R50.10-billion.

WBHO order book outlook			
	December 31, 2018	**To June 30, 2019**	**Beyond June 30, 2019**
Order book by segment			
Building and civil engineering	R6.39-billion	R3.06-billion	R3.33-billion
Roads and earthworks	R5.41-billion	R2.58-billion	R2.83-billion
Australia	R29.29-billion	R11.83-billion	R17.47-billion
UK	R9.02-billion	R3.15-billion	R5.87-billion
Total	**R50.11-billion**	**R20.61-billion**	**R29.50-billion**
Order book by geography			
South Africa	R10.20-billion	R4.87-billion	R5.34-billion
Rest of Africa	R1.60-billion	R767-million	R828-million
Australia	R29.29-billion	R11.83-billion	R17.47-billion
The UK	R9.02-billion	R3.15-billion	R5.87-billion
Total	**R50.11-billion**	**R20.61-billion**	**R29.50-billion**

Source: WBHO unaudited interim results for the six months ended December 31, 2018

Picture by Creamer Media

LOCAL DEMAND

South Africa's construction industry reached a peak when the country was preparing to host the 2010 FIFA World Cup, with investments in the construction of stadiums, roads and transport systems and other related infrastructure. Conditions have, however, been on the decline since, despite government's ongoing commitment to investing billions of rands in infrastructure.

Construction companies are operating in a difficult local environment, with many lamenting the slow pace of contract awards by government.

News platform Business Live quoted WBHO chairperson Mike Wylie in December 2018 as stating that there was significant competition in the local construction market during 2018, which resulted in lower margins and an increase in lossmaking projects. He was further quoted as stating that the construction industry would suffer significantly if government did not start to expedite its public infrastructure programme.

Wylie noted in WBHO's 'Integrated Report 2018' that a vibrant construction industry was necessary to help grow the economy and boost job creation, but that policy uncertainty, poor governance within State-owned entities (SoEs) and corruption had negatively impacted on private-sector investment in South Africa, which contributed to many of the country's large and medium-sized construction companies being in a difficult financial position.

WBHO CEO Louwtjie Nel, meanwhile, told *Engineering News* in a February 2019 interview that the local construction sector had faced "severe challenges" over the past 12 months amid political uncertainty and a strained business environment.

He pointed out that lower investment in infrastructure by the public and private sectors had resulted in increased competition, lower margins, the collapse of various midtier contractors and significant job losses as a result of the knock-on effect in the subcontractor market.

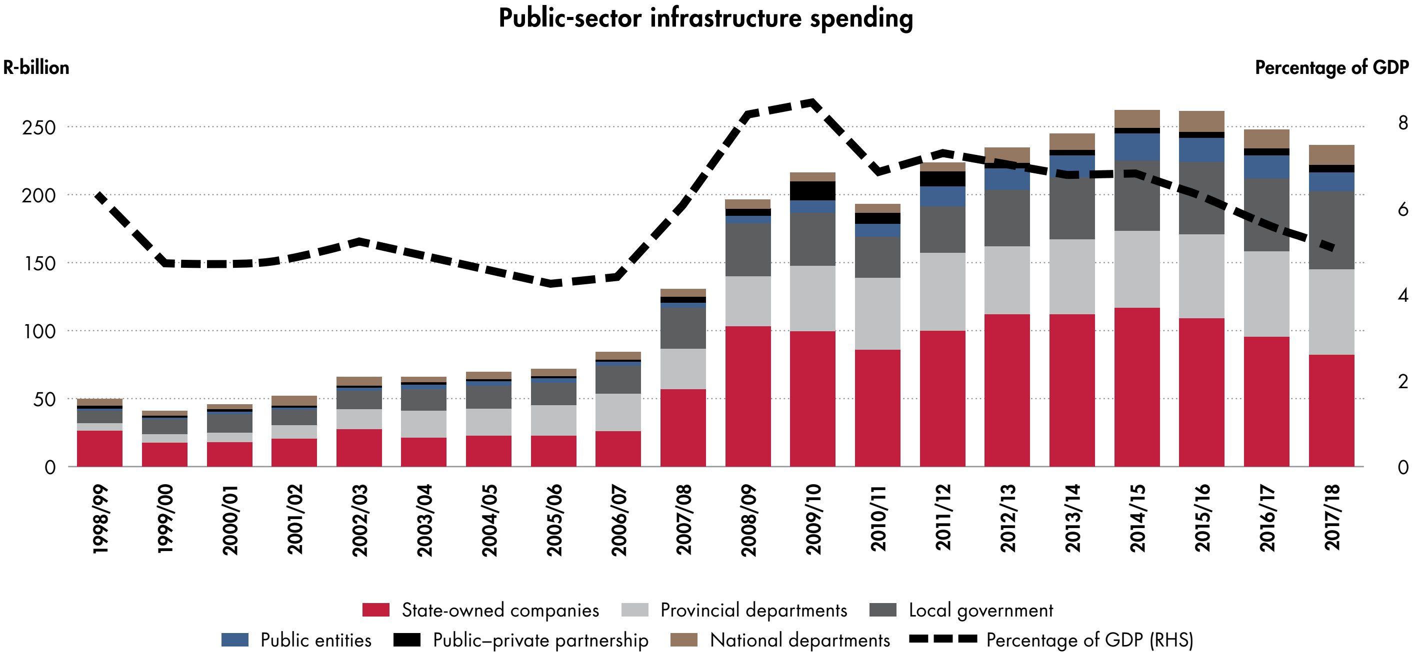
Further, delays in payment from government for completed projects were exacerbating the challenges faced by construction companies.

Construction Industry Institute Africa director Dr Giel Bekker told *Engineering News* in a November 2018 interview that South Africa's capital construction industry was at a crossroads as a result of a decline in activity and productivity.

Despite the many challenges facing the industry, some are hopeful that President Cyril Ramaphosa's plans to increase investment in the country, create greater policy certainty and deal with corruption will result in improved operating conditions for construction companies.

Ramaphosa announced an economic stimulus and recovery plan in September 2018, comprising five interventions to contribute to faster economic growth, and more job creation. Among the five interventions are the reprioritisation of public spending to support economic growth, establishing an infrastructure fund and investing in municipal social infrastructure improvements.

The National Treasury noted in its '2019 Budget Review', published in February 2019, that the public sector had invested about R3-trillion in infrastructure between 1998/99 and 2017/18, with infrastructure expenditure having increased



Source: National Treasury

from R48.80-billion in 1998/99 to R236.20-billion in 2017/18. This represents average growth of about 4.30% a year over the period.

SoEs were responsible for the majority of the investment, at about R1.30-trillion, while municipalities had spent about R612.80-billion and provincial departments about R705.20-billion.

Further, public-sector infrastructure expenditure as a percentage of gross domestic product has averaged at about 5.90% between 1998/99 and 2017/18, according to the National Treasury. While investment in economic infrastructure has steadily increased, spending on social infrastructure, including schools, hospitals and sanitation, has grown at a slower pace.

Over the Medium-Term Expenditure Framework (MTEF) period from 2019/20 to 2021/22, government plans to spend R864.90-billion on infrastructure. SoEs will account for about R339-billion of the overall public-sector expenditure on infrastructure over the MTEF period, while provinces are expected to spend about R184.80-billion on infrastructure and municipalities about R205-billion.

About 75% of the overall infrastructure expenditure over the MTEF period will go towards economic infrastructure, including expanding power generation capacity, upgrading and expanding the transport network and improving water and sanitation services. Social services infrastructure, including health and education infrastructure, will account for about 20.70% of the overall expenditure.

About R158-billion has been budgeted for energy expenditure over the MTEF period, with Eskom expected to spend R134.30-billion, or 85%, of the total. Eskom will continue to invest in the Medupi and Kusile power station projects, as well as the installation of transmission lines, new transformers and the upgrading of substations, besides others.

The Department of Energy, meanwhile, has been allocated R17.40-billion for the Integrated National Electrification Programme, which will result in 590 500 new household connections to the national grid. The department will also continue to invest in the Solar Water Heater Programme and other initiatives to promote the use of energy efficient technologies.

Further, government plans to invest R313.90-billion, or 36.30%, of the overall infrastructure spend on transport and logistics infrastructure over the MTEF period. State-owned Transnet is expected to spend R102-billion on the acquisition of new locomotives, the maintenance of rolling stock, its pipelines and rail line upgrades and expansions.

The Passenger Rail Agency of South Africa has been allocated R41.50-billion for the acquisition of new trains for its Metrorail business. It will also invest R6.80-billion on signalling upgrades, R5.20-billion on the overhaul and refurbishment of rail coaches and R3-billion on other rail-related infrastructure improvements.

In terms of roads, the South African National Roads Agency Limited (Sanral) has been allocated R36.50-billion to invest in its non-tolled national roads, R3.30-billion to upgrade the Moloto road, R1.80-billion to compensate for the lower tariffs received from the Gauteng Freeway Improvement Project, R3.20-billion for the construction of the Msikaba and Mtentu megabridges on the N2 Wild Coast Road project and R19.80-billion for general road strengthening and maintenance.

Additional investment

Transport Minister Dr Blade Nzimande in February 2019 announced that R3.50-billion set aside for transport projects under government's new Economic Stimulus and Recovery Plan would be invested by the South African National Roads Agency Limited (Sanral) in upgrading the N2 Wild Coast road (N2WCR), the N3 and the Moloto road.

The Economic Stimulus and Recovery Plan unveiled by President Cyril Ramaphosa in September 2018 sets out measures to put South Africa on a new growth path, with investment to go towards roads, human settlements and water infrastructure, besides others.

The R3.50-billion is in addition to the R21-billion allocated to Sanral by the National Treasury for 2018/19.

The N2WCR project, in the Eastern Cape, is already under way. The stimulus investment will be used, firstly, for a 16.30 km single carriageway and four-lane undivided road with two interchanges between Lingeni and the Msikaba bridge. The project is valued at R976-million. Secondly, the funds will be used for the R1.10-billion upgrade of a 17.70 km single carriageway that will link the Msikaba and Mtentu megabridges. Lastly, R835-million will be spent on the upgrade of 11.50 km of road between Kulumbe and the Umtanvuna river.

In KwaZulu-Natal, Sanral is upgrading the N3 between Durban and Pietermaritzburg. The upgrade is one of government's Strategic Infrastructure Projects and seven shovel-ready projects along the N3 will benefit from the stimulus investment. Nzimande made special mention of three of the seven projects – the R1.50-billion upgrade of the EB Cloete interchange that links the N2 and the N3 in eThekwini; the R1.50-billion project to add lanes between Cato Ridge and Camperdown in the uMgungundlovu municipality; and the R1.20-billion project to add lanes between Camperdown and Lynnfield Park.

The upgrade of the Moloto road between Limpopo and Mpumalanga will also benefit from the stimulus investment. Nzimande noted in February 2019 that the first phase of the upgrade, which involves the upgrade of the carriageway between Siyabuswa and Marble Hall, in Limpopo, was nearing completion. The upgrades of four priority intersections in Mpumalanga have also been completed. A further three construction work packages in Limpopo and a further five in Mpumalanga are expected to get under way during the current financial year.

Source: *Engineering News*

In addition, public-sector investment in the water and sanitation sector is expected to reach R132-billion over the MTEF period, representing about 15.30% of government's overall infrastructure spend over the period.

The Water Infrastructure Development Programme has been allocated R42-billion over the period, while disbursements through the regional bulk infrastructure grant and the water services infrastructure grant will amount to R18.30-billion.

The National Treasury, meanwhile, noted in its 'October 2018 Medium-Term Budget Policy Statement' that government was working to promote increased capital investment by the private sector.

In its '2019 Budget Review', it stated that government was unable to meet the country's growing infrastructure needs on its own and that public–private partnerships (PPPs) were an effective way for the public and private sectors to collaborate on the delivery of much-needed infrastructure.

National Treasury revealed that since South Africa first introduced PPPs in 1998, R89.60-billion has been spent on such projects.

Over the MTEF period, PPP projects will account for R17.30-billion, or 2%, of the overall R864.90-billion planned public-sector infrastructure expenditure.

Despite the successes, National Treasury pointed out that the number of new PPP transactions had decreased from R10.70-billion in 2011/12 to R4.80-billion in 2017/18. It stated that challenges had arisen in recent years, resulting in delays and cancellations of PPP projects. To mitigate these challenges, government is reviewing the PPP framework.

Bureau for Economic Research senior economist Craig Lemboe, meanwhile, told *Engineering News* in February 2019 that the need for PPPs had diminished to some extent in recent years; however, he expects more PPP projects will be undertaken in future, given the financial constraints facing government.

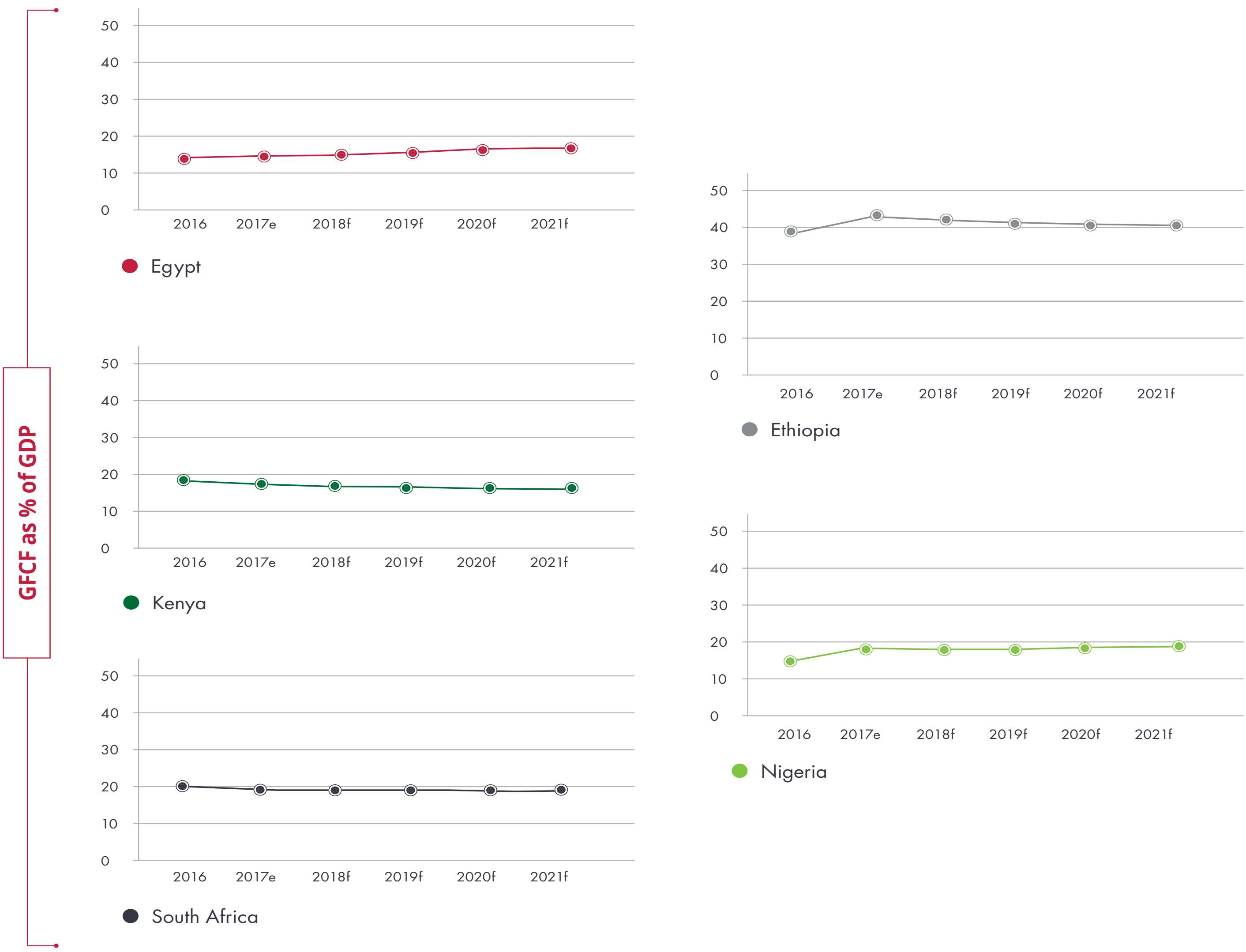
Deloitte's 'Africa Construction Trends' (ACT) report for 2018, published in November 2018, shows that South Africa's gross fixed capital formation (GFCF) spend has remained at about 20% of gross domestic product (GDP) since 2010, while it is recommended that countries should spend about 30% of GDP on GFCF.

The country's GFCF investment is also not likely to increase above 20% until 2021.

South Africa's GFCF as a percentage of GDP 2010-2017

Source: Deloitte Africa Construction Trends 2018

South Africa's forecast GFCF as a percentage of GDP 2016-2021



Source: Deloitte Africa Construction Trends 2018
e – estimate
f – forecast

The ACT report notes, however, that government is trying to increase GFCF spend through the launch of a R400-billion infrastructure fund, as announced in September 2018.

The Construction Industry Development Board (CIDB), meanwhile, noted in its latest 'Construction Monitor – Supply and Demand' report, published in April 2018, that total GFCF spend, which includes investment by general government, public corporations and the private sector on civil construction, nonresidential buildings and residential buildings, had amounted to R435.70-billion in 2017, a 2.10% year-on-year decrease. This compares with growth in GFCF of 0.50% in 2016 and 5.10% in 2015. The CIDB attributed the decrease to weak business and investor confidence, policy uncertainty, fiscal constraints and the challenges facing SoEs.

General government's GFCF decreased by 5.50% in 2017, that of public corporations by 1.30% and that of the private sector by 0.40%. Investment in civil construction decreased by 1.90% in 2017 and in nonresidential buildings by 6.40%. Investments in residential buildings, however, increased by 1.50%.

Overall, government, including public corporations, contributed 56% of the investment while the private sector contributed 44%.

Gauteng accounted for 35% of the investment, the Western Cape for 19% and KwaZulu-Natal for 17%.

Financial services provider Nedbank noted in its latest 'Capital Expenditure Project Listing' report, which tracks public- and private-sector projects valued at more than R20-million, that

Gross fixed capital formation on construction works for 2017				
	Government	**Public corporations**	**Private sector**	**Total**
Civil construction	R82.24-billion	R123.96-billion	R65.27-billion	R271.47-billion
Nonresidential	R32.61-billion	R3.04-billion	R43.68-billion	R79.33-billion
Residential	R1.64-billion	R58-million	R83.21-billion	R84.90-billion
Total	**R116.49-billion**	**R127.06-billion**	**R192.15-billion**	**R435.70-billion**

Source: Construction Industry Development Board

fixed investment activity has remained weak since 2014 as a result of low levels of business confidence, concerns over subdued economic growth, policy uncertainty, corruption and rising operational costs.

The report, published in March 2019, showed that the number of new projects announced in 2018 had decreased to 52, from 54 in 2017; however, the value of projects had increased to R93.30-billion, compared with R68.20-billion in 2017. Nedbank pointed out that these figures did exclude some of the projects announced during an October 2018 investment summit hosted by President Cyril Ramaphosa, as details for some of those proposed projects were not yet available.

The bank pointed out that the increase in the value of projects had been supported by the signing of power purchase agreements for renewable-energy projects under the delayed fourth round of the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP). These projects added R38-billion to the value of projects announced.

The report further showed that the private sector had accounted for 89% of the value of the projects and 62% of the number of projects.

In terms of the breakdown by economic sector, Nedbank reported that planned expenditure had remained subdued in most industries.

The biggest positive contributor to the value of projects announced was the electricity, gas and water sector, where the value of projects increased to R39.80-billion, compared with R1-billion in the prior year, as a result of the round four REIPPPP projects. Another big project in this sector is State-owned Transnet's offshore supply base, which will be established at the Port of Saldanha to serve vessels supporting offshore exploration and production activities along the west and east coasts of Africa.

Manufacturing was the second-biggest contributor, with the value of projects announced in this sector having increased to R20.30-billion in 2018, compared with R13.60-billion in 2017. Among the 13 new projects announced is Sappi Saiccor's R7.70-billion Vulindlela expansion plan; Aspen's R3.40-billion investment to manufacture sterile anaesthetics at its Port Elizabeth plant; a R1.50-billion upgrade at Anglo American Platinum's Polokwane platinum smelter; and Sinopec/Chevron's R6-billion investment in a proposed new oil refinery in Cape Town.

The finance, real estate and business services sector announced ten new projects, valued at R11.80-billion, compared with the 11 projects, valued at R15-billion, announced in 2017. Projects include various mixed-use properties, including the R3-billion 100 ha Tshwane Auto City development in Rosslyn; the R2-billion Saxony Sandton development, in Sandton; and the R1.50-billion Jewel City redevelopment, in the Johannesburg central business district. Other projects include a R1.20-billion 35 000 m^2 office building to be developed by Growthpoint, in Rosebank, and a R1.80-billion mall and mixed-use residential and commercial development to be built by Tongaat Hulett, in Durban.

Meanwhile, in the mining sector, two projects – the extension of the mine life of South32's Klipspruit Colliery and the modernisation of the Gloria manganese mine, in the Northern Cape – valued at R7-billion, were announced in 2018, compared with six projects, valued at R7.90-billion, announced in 2017.

Eight projects, valued at R8.80-billion, were announced in the community, social and personal services sector, a significant decrease on the 11 projects, valued at R27.30-billion, announced in 2017. Projects include the construction of new schools by Curro Holdings; the construction of new technical and vocational education and training (TVET) colleges and the refurbishment of existing TVET colleges by the Department of Higher Education and Training; and the construction of new, and refurbishment of existing, hospitals by the Department of Health.

Thirteen projects, valued at R3.50-billion, were announced in the transport, storage and communications sector in 2018. While the number of projects announced is down from 16 in 2017, the value of the projects was consistent with that of 2017. Projects include the rehabilitation, tarring and expansion of road infrastructure by various provincial departments of roads and transport, as well Teraco's R1-billion expansion of its Isando data campus.

After no new project announcements in 2017, the wholesale, retail and motor trade, hotels and accommodation sector reported four projects, valued at R2.10-billion, in 2018. Among these projects are the R900-million redevelopment of the Old Ambassador Hotel into apartments and Clicks' R700-million investment in new stores and the refurbishment of existing stores.

No new projects were announced in the construction and agriculture, forestry and fisheries sectors during 2018.

Nedbank expects GFCF to have grown by 0.30% in 2018 and to grow by 0.70% in 2019, compared with 0.40% in 2017. The CIDB, meanwhile, forecasts GFCF to decrease by 1.60% in 2018, but to increase by 1.90% in 2019.

Nedbank stated that growth in investment spending by general government and public enterprises is likely to be limited by budget constraints, while there is likely to be some recovery in private-sector investment plans during 2019 as a result of a moderate improvement in domestic demand and global growth.

Picture by Creamer Media

Meanwhile, the proposed R400-billion infrastructure fund to be set up by government is expected to improve the way in which government invests in infrastructure. Finance Minister Tito Mboweni explained in October 2018 that, as part of the fund and to mitigate challenges resulting from poorly prepared projects, government would provide R625-million for the Development Bank of Southern Africa, the Government Technical Advisory Centre and the Presidential Infrastructure Coordinating Commission to help strengthen project preparation. Government also plans to establish a group of engineers, quantity surveyors, architects and other professionals to help with the execution of infrastructure projects.

Mboweni further revealed in his 2019 Budget speech in February 2019 that government would commit R100-billion to the infrastructure fund over the next decade. He also pointed out that the private sector would be called on to take responsibility for the design, construction and operation of many of the projects that will form part of the infrastructure fund. Rural roads and water projects would be prioritised.

Engineering News quoted the Minister as stating that creating a sensible project pipeline and streamlining the law to make it easier to build infrastructure, were key to the execution of infrastructure projects.

Although billions of rands in funding are being made available for infrastructure development, South Africa may still not reap the benefits it is expecting to. Law firm Hogan Lovells partner and construction head Clive Rumsey told *Engineering News* in February 2019 that while the availability of funding was important, how that money was spent was even more important. He emphasised that funds had to be spent correctly and that required employing the right people to oversee that spending.

The Master Builders Association (MBA) North has, meanwhile, highlighted that a lack of construction contracts is having a knock-on effect on subcontractors that are struggling amid nonpayment or payment delays by main contractors. Business Report in August 2018 quoted MBA North executive director Mohau Mphomela as stating that a large percentage of work conducted at projects was executed by subcontractors who were finding it difficult to survive amid the slowdown in new contract awards by the public and private sectors. The article highlights that, as a result, many subcontractors retrenched employees, and went into business rescue or filed for liquidation. The slowdown in construction contract awards was affecting not only main contractors and subcontractors but also construction materials suppliers, who, in some instances, also had to retrench employees.

Picture by Creamer Media

INTERNATIONAL EXPANSION

Given the competitive and challenging market conditions in South Africa, many of the country's construction firms are seeking opportunities beyond the country's borders on the continent. Some are also turning to Europe and Australia for potential opportunities to offset their losing market share at home.

While gross domestic product (GDP) growth is expected to decrease worldwide, and thus also across Africa, this year, Deloitte points out in its ACT 2018 report that investment in infrastructure and capital projects is key to driving GDP growth and private-sector activity. The report emphasises that the provision of access to basic services through investment in water, education and healthcare infrastructure can contribute to more sustainable and inclusive economic growth.

It further points out that a productive infrastructure base is necessary for improving the industrialisation and diversification of emerging economies, which should help countries in Africa reduce poverty and increase job creation. However, the report states that insufficient productive water, transport and power infrastructure are hampering Africa's industrialisation and development, as a result of a shortfall in financing for infrastructure projects. The report quotes the African Development Bank as stating that there is an estimated shortfall of between $68-billion and $108-billion in infrastructure funding across the continent.

While the ACT report shows that countries should be spending about 30% of GDP on gross fixed capital formation (GFCF), the average GFCF across sub-Saharan Africa is, however, only 19.50%, while that of North Africa is 23.40%. East Africa is investing, on average, about 26.10% of its GDP on GFCF, while West Africa has the highest average, at 28.60%.

There is thus, plenty of room for Africa's economies to raise their GFCF spend as they endeavour to improve their economic growth and industrialisation efforts. Meanwhile, the ACT report considered 482 projects valued at more than $50-million that had broken ground by June 1, 2018. Deloitte states that these projects are valued at a combined $471-billion.

The number of projects that qualified for inclusion in the report increased by 59.10% year-on-year while the value of projects increased by 53.30% year-on-year.

East Africa was the region with the largest number of projects, at 139 (2017: 71). The value of projects under development in the region also increased to $87.10-billlion in 2018, compared with $32.60-billion in 2017.

North Africa had the largest share of projects in terms of value, at 31.50%, or about $148.30-billion (2017: $77.10-billion). The number of projects under development in the region also increased to 109 in 2018, from 40 in 2017.

The number of projects under development in Southern Africa increased to 103 in 2018, compared with 93 in 2017, while the value of projects increased to $125.40-billion, compared with $89.70-billion in 2017.

The number of projects in Central Africa increased to 26 in 2018, from 20 in 2017, while the value of projects increased to $26.90-billion, from $9.5-billion in 2017. West Africa was the only region to have recorded a decrease in the value of projects to $82.80-billion in 2018 (2017: $98.30-billion), despite the number of projects having increased from 79 to 105.

On a country-by-country basis, Egypt overtook South Africa and Nigeria as the country with the most projects, at 46, as well as the highest projects by value, at 17%, or about $79.20-billion.

Overall, the majority of projects – 339 out of the 482 included in the ACT report – were valued at between $50-million and $500-million, while 63 projects were valued at between $501-million and $1-billion and 61 projects at between $1.10-billion and $5-billion. Five projects were valued at between $5.1-billion and $10-billion and 14 projects at more than $10-billion. Deloitte notes that the figures show the difficulty in structuring, financing and delivering megaprojects in Africa.

Further, the ACT shows that 38.60% of the projects were in the transport sector and mainly focused on the construction of roads and bridges, which may point to governments' commitment to improving trade on the continent. The real estate sector accounted for 22.80% of projects in 2018, followed by the energy and power sector, at 13.70%, and shipping and ports, at 7.50%.

Meanwhile, governments own about 75.50% of all projects under development on the continent, followed by private domestic firms, at 9.30%, firms headquartered in China, at 3.30%, and firms headquartered in Australia and the Middle East, at 2.50% each. Governments also fund the largest number of projects, at about 24.50% of all projects, followed by China, at about 18.90%. International development finance institutions fund about 13.70% of projects and private domestic firms about 10.60%. France- and Italy-headquartered firms are also notable funders of projects on the continent, at 4.40% and 3.10% respectively.

Turning to the South African construction firms that invest in Africa, Esor has set its sights on Botswana, Zimbabwe and Swaziland as growth areas. It reported in its 'Integrated Report 2018' that 16.20% of its revenue was now generated outside of South Africa, while 38% of its secured work was outside South Africa. The company noted, however, that operating in other African countries did come with challenges, with overhead and support costs outside South Africa double that for projects within South Africa. It further pointed out that companies had to ensure that they understood and complied with local legislation, indigenisation requirements and exchange control restrictions in those countries.

Raubex, meanwhile, noted in its interim results for the six months ended August 31, 2018, that it is pursuing big project opportunities in Southern and East Africa, including the Beitbridge border post upgrade project in Zimbabwe and work related to the Lamu Port-South Sudan-Ethiopia Transport corridor, in Kenya. The corridor will link Kenya, Ethiopia, Uganda and South Sudan.

Raubex has an international presence, mainly through the supply of materials, mining services and construction activities in Botswana, Cameroon, Namibia and Zambia. In Namibia, its materials division is active in the diamond and copper mining sector, while, in Botswana, it is working at commercial quarrying operations.

The Raubex Renovo subsidiary, in Cameroon, is making progress with the construction of a hotel and a mall.

In Zambia, however, two Link 8000 road contracts remain suspended, with Raubex and the Zambian Road Development Agency in negotiations to find a solution to an impasse over outstanding payments owing to Raubex.

Stefanutti Stocks is focused on opportunities in the road and bridge, bulk pipeline, marine and mixed-use building construction sectors in Southern Africa and throughout sub-Saharan Africa.

There are, however, also risks to building infrastructure in the rest of Africa, as demonstrated by Group Five's experiences on the Kpone project, in Ghana.

Looking beyond Africa, Esor is also working to acquire a US-based engineering, procurement and construction contractor in the oil and gas sector that will enable its oil and gas platform to expand into the US market. It is also seeking potential takeover targets for its underground mining platform in Australia and Canada, with a particular focus on companies that can give it a foothold in the British Columbia and Quebec mining markets.

Raubex, meanwhile, has acquired Westforce Construction, giving it access to the Western Australia construction market.

Aveng, which mainly operates in South Africa, sub-Saharan Africa, Australasia and South-East Asia, is seeking to position itself as an international infrastructure and resources group over the long term. As it restructures, it is increasingly focusing on its Aveng Moolmans and McConnell Dowell subsidiaries to help it achieve that goal.

M&R's Australian subsidiary Clough, meanwhile, remains successful, despite a slowdown in the oil and gas market in the country. Clough has expanded into the Australian metals and minerals and infrastructure markets, with some successes achieved in securing contracts from diversified majors such as BHP, Alcoa and Rio Tinto. M&R's underground mining platform has secured contracts for the construction and rehabilitation of vertical and decline shafts in Australia, Canada, Indonesia, Mongolia, South Africa, the US and Zambia. It also has contract mining projects in Australia, Canada, Indonesia, South Africa and the US.

WBHO is pursuing expansion opportunities in the UK. It previously acquired a 40% interest in Byrne Group to give it a foothold in that market and, during 2018, it acquired a 60% interest in Manchester-based contracting company Russells, as well as a 37% interest in Russell Homes, which specialises in land acquisition and planning for residential building schemes in the UK.

Picture by Bloomberg

In 2009, the competition commission launched an investigation into alleged anticompetitive behaviour and uncovered about 300 cases of collusion

Picture by AdobeStock

COMPETITION COMMISSION

The South African competition authorities have, in recent years, settled various matters pertaining to alleged collusive practices, but some matters remain outstanding.

In 2009, the Competition Commission launched an investigation into alleged anticompetitive behaviour and uncovered about 300 cases of collusion in the public and private sectors. In 2011, it subsequently launched a fast-track settlement process for companies allegedly involved in 160 of the cases, which mainly related to road and other infrastructure projects that were built ahead of the 2010 FIFA World Cup.

Under the terms of the process, companies were invited to disclose their involvement in exchange for lower penalties and three firms were eventually granted conditional immunity. A further 15 agreed to a collective R1.46-billion settlement, while three others decided not to settle with the competition authorities.

This was followed, in 2014, by a second-phase investigation by the commission into the alleged collusive behaviour of those firms that did not participate in or settle with the commission under the fast-track settlement process.

Some of the firms that would have faced potential penalties, as a result of the second phase of investigations in 2016, agreed to participate in a Voluntary Rebuild Programme (VRP), which was aimed at helping transform the industry by either selling equity stakes in their businesses to black-owned companies or partnering with emerging contractors. Any claims or potential claims against the firms that have chosen to participate in the VRP are considered to be settled.

Esor, however, chose not to participate in the VRP and is still subject to potential penalties by the competition authorities. Esor has allegedly participated in collusive tendering, market division and price fixing in the piling, lateral support, grouting and geotechnical drilling markets. It noted in its 'Integrated Report 2018' that it expected that the matter would be finalised during the 2018 calendar year. The outcome of the process is as yet undecided.

Meanwhile, the Competition Tribunal approved a settlement agreement in August 2018, granting Group Five immunity for cooperating with the commission's investigation into the construction industry's activities and for disclosing its participation in 15 projects identified as part of the fast-track settlement process. The projects included the Durban International Convection Centre project, the N17 Link Road to Soweto project, the Northern Waste Water Treatment Works project, the R102 to King Shaka International Airport project, the Main Road 577 project, the Renault Motor Company project, the Dwaalboom Cement Works Pre-Heated Tower project, the Green Point Stadium project, the Olifantspoort water project, the Anglo American Platinum housing project, the Khangela Bridge and Bogoso gold mine projects, the Rio Tinto QMM Minerals project, the Sappi Amakhulu project and the Gauteng Freeway Improvement Project.

Later in August 2018, Business Report reported that Group Five had lodged an application with the High Court to review and set aside a commission decision to refer a complaint against the company to the tribunal for alleged collusive tendering with regard to to the construction of stadiums for the 2010 FIFA World Cup. The article stated that Group Five based its application on the grounds that the commission had conducted an unlawful preliminary investigation and that the referral decision was in breach of its granting of immunity to Group Five.

According to Business Report, the commission had, in turn, lodged an application to have Group Five's application dismissed on the grounds that the High Court did not have jurisdiction to adjudicate on the matter. The High Court reserved judgment on the matter.

In November 2018, the publication reported that the City of Cape Town was still considering whether to add Group Five in a claim for R429-million in civil damages against various construction firms related to the alleged collusion regarding the construction of the Green Point Stadium. According to the news article, the civil damages claim against WBHO, Aveng and Stefanutti Stocks was due to be heard by the High Court in February or March 2020.

Construction materials supplier Afrimat is also considering legal action against the tribunal over a delay in the hearing of a complaint against Afrimat for alleged abuse of dominance. According to a November 2018 news article published by Business Day, the commission referred the complaint to the tribunal, alleging that Afrimat had abused its dominance through the charging of excessive prices by subsidiary company Clinker Supplies. The commission was seeking an administrative penalty of R16.30-million in the matter. Business Day quoted Afrimat as stating that the delay by the tribunal in hearing the matter was contributing to rising legal costs for the construction materials supplier.

Picture by JBCC

Picture by AdobeStock

TRANSFORMATION

Picture by Creamer Media

A lot of emphasis is being placed on transforming South Africa's economy to be more inclusive. Government has also implemented measures to try to accelerate the pace of transformation in the construction industry. As previously stated, a number of the country's largest construction firms agreed in 2016 to participate in a Voluntary Rebuild Programme that would require them to either sell an equity stake in their local businesses to emerging contractors, or partner with and mentor them.

The firms have met these obligations. Basil Read, Group Five, Aveng and M&R sold an equity stake in their businesses, while Stefanutti Stocks and WBHO chose to partner with emerging contractors.

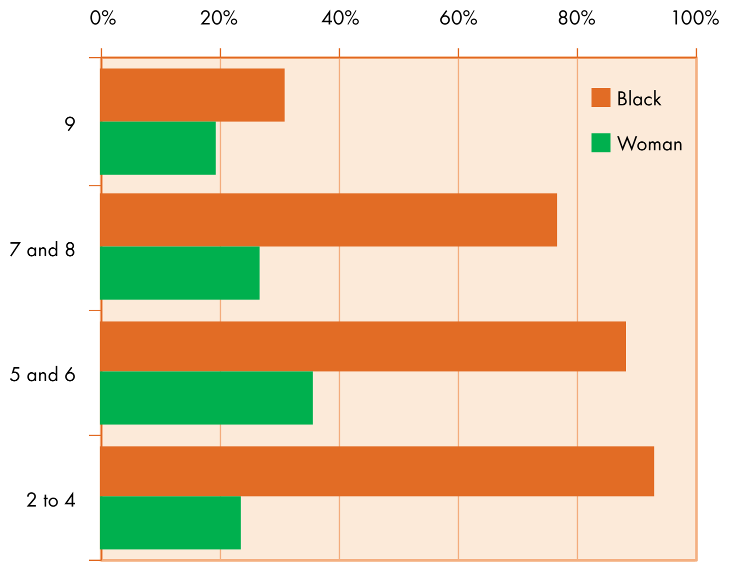
Further, the Construction Sector Code of Good Practice was published in the Government Gazette in December 2017, compelling construction companies to achieve at least 35% black-ownership by Year 4 of the code's implementation.

Despite government's efforts, it seems that little has changed over recent years in terms of empowerment within the construction industry.

The Construction Industry Development Board (CIDB) notes in its Construction Monitor for the fourth quarter of 2018, published in January 2019, that while black-ownership representation has improved overall, this has not been the case in the higher-level contractor grades. The CIDB data shows that 94% of businesses in the grades 2 to 4 segment are more than 51% black-owned, while 86% of grades 5 and 6 are more than 51% black-owned. Seventy-three per cent of businesses

Public-sector contracts awarded

Grade	Black (%)	Woman (%)
9	31%	19%
7 & 8	77%	27%
5 & 6	89%	36%
2 to 4	93%	23%
Total	**58%**	**24%**



Source: Construction Industry Development Board Construction Monitor Transformation, Quarter 4, 2018

in grades 7 and 8 are more than 51% black-owned, but only 37% of Grade 9 contracting businesses are 51% black-owned or above.

Further, about 87% of grades 2 to 4 contractors are more than 90% black-owned, 82% of grades 5 and 6 contractors are more than 90% black-owned and 67% of grade 7 and 8 contractors are more than 90% black-owned, but only 33% of Grade 9 contractors are more than 90% black-owned.

In terms of women-owned businesses, the CIDB reports women's ownership in contractor grades 2 to 6 has decreased over time, while that of contractor grades 7 to 9 has increased, as more women-owned contractors move up to higher grades.

Forty per cent of grade 2 to 4 contractors are more than 31% women-owned, while 35% of grade 5 and 6 contractors are more than 31% women-owned. Thirty-four per cent of grade 7 and 8 contractors are more than 31% women-owned and 28% of Grade 9 contractors are more than 31% women-owned.

Further, 32% of grade 2 to 4 contractors are more than 51% women-owned, while 28% of grade 5 and 6 contractors are more than 51% women-owned. Twenty-five per cent of grade 7 and 8 contractors are more than 51% women-owned and 22% of Grade 9 contractors are more than 51% women-owned.

The CIDB, meanwhile, reports that black-owned contractors are accessing about 58% of all public-sector project awards, and while this is somewhat higher than the 54% reported for previous years, it remains well below the CIDB's aim of 90% of contract awards. Again, the biggest concern remains that only about 31% of public-sector contract awards are accessed by Grade 9 contractors that are more than 51% black-owned. Woman-owned contractors access about 24% of public contract awards, but the Grade 9 contractors that are more than 51% women-owned access only about 31% of public-sector contracts.

Amid criticism that transformation in the industry is lagging, WBHO chairperson Mike Wylie commented in the group's integrated report for 2018 that once the VRP has been fully implemented by 2023, the number of Grade 9 black-owned companies will increase above 70%. He lamented, however, that some State-owned enterprises were already requiring construction firms to have more than 51% black ownership to tender for a contract, despite this being in contravention of government's Preferential Procurement Policy Framework.

Meanwhile, the National Treasury has spoken out against subcontractors that are abusing the Preferential Procurement Regulations. Business Report in August 2018 quoted the Treasury as stating that it had become aware of parties that were demanding that main contractors pay them a cash amount equal to 30% of the value of certain contracts as part of the main contractor's responsibility to meet the requirement of appointing emerging subcontractors to handle 30% of the contract work. The news article pointed out that the refusal by contractors to pay these parties in cash often resulted in the projects being halted. A treasury spokesperson had told the newspaper that such action was illegal and hampered government's efforts to transform the industry.

The Council for the Built Environment (CBE), meanwhile, hosted its yearly transformation indaba in February 2019. CBE CEO Priscilla Mdlalose stated during the event that transformation in the built environment was progressing at a slower rate than in other sectors. She noted that only 26% of registered built environment professionals were previously disadvantaged, while only 0.30% of registered professionals were women. Mdlalose blamed the slow pace of transformation on poor skills development programmes, inadequate funding, capacity constraints and fraud and corruption.

She further noted, however, that the pace of transformation could increase in future, as the CBE's data showed that the majority of candidate built environment professionals were previously disadvantaged persons, while women accounted for 35% of candidate built environment professionals.

To improve transformation in the built environment, the CBE has called for an industry-wide strategy to advance skills development. The council has suggested that an institution be established to oversee transformation initiatives in the industry and create awareness among school children about careers in the built environment and what subjects will be required to enter theprofession.

Sanral Transformation Policy

The South African National Roads Agency Limited's (Sanral's) Draft Transformation Policy, through which it intends to help promote transformation in the construction industry, was published in September 2017. The draft policy is expected to broaden the participation of black-owned contractors and suppliers in the road construction and maintenance sectors.

To achieve Sanral's goals, the policy document proposes that only companies with 51% or higher black-ownership and at least a Level 2 broad-based black economic-empowerment rating be allowed to bid for the agency's tenders.

The document also proposes a limit to the number of contracts that can be awarded to any one contractor or concessionaire in a year.

After publishing the report, Sanral embarked on consultations with relevant stakeholders and held public hearings in late 2017. Stakeholder inputs have been included in an updated transformation policy, which forms part of the roads agency's Horizon 2030 strategic plan.

Engineering News reported in October 2018 that the Horizon 2030 strategy, as well as the transformation policy, was ready to go to Cabinet for its approval.

The agency also encourages large contractors to partner with and enter into joint ventures (JVs) with emerging contractors as part of measures to support emerging contractors.

It first implemented this policy in the contract involving the rehabilitation of the R573 Moloto road, in late 2017, with Raubex Construction appointed to rehabilitate the Mpumalanga stretch of the road in partnership with Themolo Business Enterprise, Khuluphala Tradings and Biz Afrika. The contract for the Limpopo stretch of the R573 was awarded to KPMM and Chauke Business Enterprise.

As part of its efforts to support emerging contracts, Sanral has entered into memorandums of understanding (MoUs) with construction equipment suppliers to assist smaller contractors in accessing the right equipment.

Business Report in July 2018 quoted Sanral CEO Skhumbuzo Macozoma as stating that emerging contractors often did not have the record or collateral required by financial institutions to provide financing to buy the necessary equipment.

Sanral signed an MoU with Bell Equipment in July 2018 to assist smaller contractors in acquiring the right equipment while providing technical support in terms of the operation of the equipment.

Similar MoUs were signed by Sanral and Barloworld Equipment and Wirtgen in September and October 2018 respectively.

Sources: Sanral, *Engineering News* and Business Report

Picture by AdobeStock

CORPORATE ACTIVITY

After concluding its exit from the South African construction market and positioning itself as an international natural resources-focused engineering and construction firm, Murray & Roberts (M&R) became the target of a takeover offer by one of its shareholders in 2018.

German family-owned business ATON announced in March 2018 that it planned to acquire all shares in M&R it did not own. This was followed in April 2018 with a firm, but voluntary, offer to M&R's shareholders of R15 a share.

An independent board established by M&R to assess the offer, however, urged shareholders not to accept the R15 a share offer, saying it undervalued the company. M&R considered R20 to R22 a share to be a fair offer.

As ATON slowly started to increase its shareholding in M&R, raising its stake above 39%, another of M&R's biggest shareholders, the Public Investment Corporation (PIC), which was opposed to ATON's offer, also increased its interest in M&R above 20% in April 2018.

After realising that M&R would not cooperate and recommend the offer to its shareholders, ATON filed a merger application with South Africa's Competition Commission in May 2018. M&R, in turn, filed its own merger notification.

Matters became even more complicated when M&R announced in May 2018 that it was negotiating a possible merger with Aveng, which would result in M&R's taking full ownership of Aveng. *Engineering News* reported at the time that M&R believed Aveng's McConnell Dowell subsidiary would enhance its infrastructure capacity in Australia, while Aveng Moolmans would provide it with surface mining capabilities to complement M&R's existing underground mining experience. M&R insisted that negotiations between the companies had started before ATON launched its takeover.

ATON stated at the time that it believed the proposed merger was merely a means to hamper its attempts to take full ownership of M&R.

It did, however, increase its offer to M&R shareholders to R17 a share later in May 2018, while increasing its shareholder stake in M&R to just under 44%. ATON also declared its offer to M&R shareholders mandatory. ATON also questioned the strategic benefits of M&R's proposed tie-up with Aveng, stating that M&R may benefit only from Aveng's mining expertise.

M&R sought to exclude ATON from voting on the proposed merger with Aveng in June 2018 by approaching the Competition Tribunal to prevent ATON from exercising its voting rights in M&R during the shareholder vote. The tribunal ruled, however, that ATON would be allowed to vote its shares, provided that attendance at the general meeting to vote on the transaction was not so low that ATON's shares would constitute 50% or more of the votes.

Just over 52% of those in attendance at the general meeting voted in favour of M&R's continuing to pursue the merits of a merger with Aveng.

In another twist, ATON in July 2018 acquired a 25% interest in Aveng. The Takeover Special Committee also overturned a June

2018 decision by the Takeover Regulation Panel that allowed M&R to proceed with its proposed merger with Aveng. These factors prompted M&R to withdraw its offer for Aveng.

Moneyweb reported in January 2019 that ATON's mandatory offer to M&R shareholders would remain open until March 31, 2019, and that ATON had previously indicated that it would consider delisting M&R from the JSE if it gained majority ownership, but that this may not be possible. The article noted that ATON's shareholding in M&R would be excluded from voting about the delisting and that the PIC, a significant shareholder in M&R, may not vote in favour of the delisting.

ATON in March 2019 extended the long stop date for completing the buyout of M&R to June 30, 2019, as a result of outstanding merger control clearances and competition authority approvals in South Africa and Canada.

Meanwhile, during 2018, Aveng successfully concluded a rights offer, raising R493-million and redeeming R2-billion of convertible bonds. The proceeds were used to reduce the group's debt. It also sold its rail business to Mathupha Capital for R133-million. In January 2019, it agreed to sell the noncore Aveng Water and Aveng Namibia Water businesses to Cambrose 735 for R95-million.

Picture by Creamer Media

EMPLOYMENT AND SKILLS

The slowdown in investment in infrastructure has resulted in a difficult operating environment for South Africa's construction companies, some of which have had to restructure their operations and, subsequently, cut some jobs.

The Construction Industry Development Board (CIDB) points out in its Construction Monitor for October 2018 that South Africa's formal sector employs about 11.30-million people and that the construction industry accounts for about 11% of that. Formal employment in the industry accounted for about 67% while informal employment accounted for 33% of overall construction employment.

As has been the case in previous years, informal employment in the construction industry has grown at a faster rate than formal employment. The CIDB notes that informal employment in the construction industry grew by about 4% between the first quarter of 2010 and the second quarter of 2018, while formal employment grew by only 1% over that period. The majority of informal employment involves small grade 1 and 2 registered contracts. Informal employment in the sector is also most prevalent in Limpopo, Mpumalanga and the Eastern Cape, where overall unemployment levels remain high.

As at October 2018, the construction industry employed about 1.43-million people, with men accounting for 89% and women for 11% of jobs. The employment of women in the industry, however, increased by 44% from the first quarter of 2008 to the second quarter of 2018.

The report further highlights that capital underspending by municipalities and provinces contributes greatly to lost employment opportunities in the construction sector. The CIDB notes that municipalities and provincial departments underspend by about R14.50-billion a year, contributing to the low investment in infrastructure and a lack of demand for construction services.

Access to skilled labour also remains a challenge for small and medium-sized contractors, but the CIDB notes that the skills challenge is not as great as it had been during the peak construction period in 2008.

Nevertheless, it states that the skills shortage is also contributing to higher costs for small and medium-sized contractors, as they find it more difficult than larger contractors to attract skilled labour.

Picture by Creamer Media

Picture by Creamer Media

SAFETY

The South African construction industry's health and safety record remains under scrutiny, particularly in light of well-publicised incidents of building and bridge collapses in recent years.

Data published by the Federated Employers' Mutual Assurance Company (FEM), shows that there were 7 779 accidents in the local construction industry during 2018, compared with the 7 560 accidents recorded in 2017. The number of permanent disabilities increased to 1 356 in 2018, compared with 1 019 in 2017. The number of fatal accidents, however, decreased to 58 in 2018, from 69 in 2017.

The accidents also resulted in 29 276 lost days for the industry in 2018, compared with 30 923 lost days in 2017.

The FEM's statistics show that 34.42% of all accidents in the industry were as a result of persons being struck by an object. Such accidents claimed the lives of 20 people in 2018, compared with six in 2017. Further, 21 people died as a result of motor vehicle accidents on construction sites during 2018, compared with 43 fatalities in 2017.

Slipping, overexertion and falling from heights are also significant contributors to construction industry accidents. The standard sets out the process and responsibilities of the client in reviewing and approving the health and safety plan submitted by the main contractor on any project, as well as auditing the implementation of the health and safety plan during construction.

To assist the industry in improving its health and safety record, the Construction Industry Development Board (CIDB) published its Standard for Health & Safety Plans and Auditing Requirements (grades 2 to 9) in the Government Gazette in November 2018.

Construction accidents by cause

	2018		2017	
Cause	**Number of accidents**	**Number of fatalities**	**Number of accidents**	**Number of fatalities**
Accident not elsewhere specified	122	2	97	3
Awaiting information	1	0	1	0
Caught in, on, or between	526	1	500	2
Contact with electrical current	46	1	39	1
Contact with extreme temperatures	155	2	137	2
Fall onto different levels	897	7	833	12
Fall on the same level	304	1	292	0
Inhalation, absorption or ingestion	122	0	174	0
Motor vehicle accident	850	21	915	43
Slip or overexertion	1 126	0	987	0
Striking against	1 105	3	1 202	0
Struck by	2 522	20	2 374	6
Unclassified	3	0	9	0
Total	7 779	58	7 560	69

Source: Federated Employers' Mutual Assurance Company

Picture by Creamer Media

OUTLOOK

South Africa's economic growth remains weak and this is likely to contribute to equally weak construction sector growth this year. The World Bank released its '2019 Global Economic Prospects' report in January, in which it forecasts gross domestic product (GDP) growth of 1.30% for South Africa in 2019.

This is lower than the 1.70% forecast by Finance Minister Tito Mboweni in October 2018, and the 1.90% forecast by the South African Reserve Bank in November 2018.

However, newspaper Business Day reported in January 2019 that research firm Fitch Solutions expected the local construction industry to emerge from recession this year, but that the industry's growth would be a meagre 2.40%.

Business Report, meanwhile, quoted market intelligence firm Industry Insights as stating that the local construction industry would not fare as badly in 2019 as it did in 2018, but that it was also unlikely that the industry would experience a significant improvement. The national elections and failing State-owned entities (SoEs) would likely pose risks for the industry. Continuing economic headwinds would keep the industry under pressure, it added.

The news report quoted Industry Insight as stating that the number of construction projects put out to tender ahead of the elections might increase, but there was also a good possibility that many of those contracts would be postponed or cancelled. Further, tender activity generally decreased by between 15% and 25% after an election, which would be problematic for the local industry, which has already experienced a significant slowdown in projects being put out to tender.

SoEs, meanwhile, were likely to spend about 43% of government's overall infrastructure budget over the next three years, the news report highlighted. The failure of any of South Africa's large SoEs would, thus, have a severely negative impact on the construction industry.

WBHO CEO Louwtjie Nel expects the construction industry in South Africa to remain subdued over the medium term. He noted in the group's 'Integrated Report 2018' that government-led infrastructure projects were unlikely to reach the market quickly, which might place strain on some companies. He stressed that the local market continued to contract further each year.

He further noted in a February 2019 interview with *Engineering News* that, despite the change in South Africa's political leadership in 2018, the structural issues within SoEs, and high levels of debt, would continue to hamper public infrastructure spending.

The contraction in the industry is also having a negative impact on subcontractors, which are also finding it more difficult to secure new work from the main contractors.

Meanwhile, it remains to be seen if President Cyril Ramaphosa's planned R400-billion infrastructure fund, which forms part of an economic stimulus and recovery plan announced in September 2018, will result in more construction projects being rolled out.

According to a February 2019 *Engineering News* article, Consulting Engineers South Africa president Neresh Pather has called for the establishment of an infrastructure advisory committee to manage the roll-out and delivery of infrastructure projects, while law firm Hogan Lovells partner and construction head Clive Rumsey encouraged government to expedite its tender and procurement processes.

APPENDIX 1:

MAJOR PUBLIC INFRASTRUCTURE PROJECTS UNDER WAY PER SECTOR

Project	Implementing agent	Project stage
Education		
Construction of hostels, lecture halls and laboratories at various tertiary institutions	Department of Higher Education and Training	Various
Replacement of inappropriate infrastructure at public primary and secondary schools	Department of Higher Education and Training	Various
Construction of hostels, lecture halls and laboratories at the University of Mpumalanga	Department of Higher Education and Training	Various
Construction of hostels, lecture halls and laboratories at the Sol Plaatje University	Department of Higher Education and Training	Construction
Construction of student housing facilities at Vaal University of Technology	Department of Higher Education and Training	Construction
Construction of student housing facilities at Nelson Mandela University	Department of Higher Education and Training	Construction
Construction of student housing facilities at Sefako Makgatho Health Sciences University	Department of Higher Education and Training	Construction
Procurement of mobile classrooms for community education and training learners	Department of Higher Education and Training	Construction
Energy		
Construction of upstream oil and gas productions assets by PetroSA and Ghana	Central Energy Fund	Construction
Mine expansion programme (T project)	Central Energy Fund	Prefeasibility
Klippoortjie mine expansion project	Central Energy Fund	Feasibility
Construction of a liquefied petroleum gas pipeline and storage infrastructure, tank repairs and terminal expansion	Central Energy Fund	Identification
Redstone concentrated solar thermal power plant project	Central Energy Fund	Feasibility
Gas trading project with Mozambique	Central Energy Fund	Identification
Upgrades and additions to West Coast energy infrastructure	Central Energy Fund	Identification
Enhanced energy processing refinery project	Central Energy Fund	Feasibility
Acquisition of new infrastructure assets to enhance downstream market entry into gas sales	Central Energy Fund	Identification
Development of a gas transmission pipeline network	Central Energy Fund	Identification

Appendix 1: Major public infrastructure projects under way per sector

Project	Implementing agent	Project stage
Health		
Construction of the Limpopo Academic Hospital	Department of Health	Feasibility
Maintenance through the National Health Insurance Backlog Programme	Department of Health	Construction
Rehabilitation of Bambisana Hospital, in the Eastern Cape	Department of Health	Design
Construction of the Siloam Hospital, in Limpopo	Department of Health	Design
Rehabilitation of Zithulele Hospital, in the Eastern Cape	Department of Health	Design
Replacement of the Balfour community health centre, in Mpumalanga	Department of Health	Construction
Replacement of the Lusaka community health centre, in the Free State	Department of Health	Construction
Replacement of the Chebeng community health centre, in Mpumalanga	Department of Health	Construction
Refurbishment of the Dihlabeng Hospital, in the Free State	Department of Health	Construction
Maintenance of the Mamelodi Hospital, in Gauteng	Department of Health	Feasibility
Human Settlements		
Human settlements development programme	Department of Human Settlements	Ongoing
Urban settlements development programme	Department of Human Settlements	Ongoing
Informal Settlements Upgrading Partnership Programme implemented by municipalities	Department of Human Settlements	Ongoing
Informal Settlements Upgrading Partnership Programme implemented by provinces	Department of Human Settlements	Ongoing
Social Housing Regulatory Authority Programme	Department of Human Settlements	Ongoing
Justice and protection services		
Construction of new and re-established police stations	South African Police Service	Various
Refurbishment of military bases, replacement of mechanical systems and ground works	Department of Defence and Military Veterans	Construction
Expansion of the Durban High Court	Department of Justice and Constitutional Development	Design
Construction of police personnel and office accommodation	South African Police Service	Construction
Upgrade and refurbishment of the South African Military Health Training Centre – Phase 2 (nurses college)	Department of Defence and Military Veterans	Design
Upgrade of Lichtenburg correctional centre through provision of 234 additional beds	Department of Correctional Services	Construction
Construction of Khayelitsha Correctional Centre	Department of Correctional Services	Design
Refurbishment, additions to existing magistrate's buildings and upgrading of security measures	Department of Correctional Services	Construction
Security installations at Pietermaritzburg, Kokstad and Empangeni correctional centres	Department of Defence and Military Veterans	Construction
Refurbishment of military base messes	Department of Defence and Military Veterans	Construction
Other economic services		
Implementation of infrastructure within special economic zones	Department of Trade and Industry	Ongoing
Upgrade of the Council for Scientific and Industrial Research Campus	Council for Scientific and Industrial Research	Construction
Infrastructure projects to support investment in mining, tourism, manufacturing and services	Department of Environmental Affairs	Construction
Upgrade of the South African National Biodiversity Institute laboratories	Department of Environmental Affairs	Construction
Upgrade of tourist accommodation facilities in national parks	Department of Environmental Affairs	Ongoing
Upgrade of iSimangaliso Wetland Park Authority office facilities	Department of Environmental Affairs	Construction
Council for Scientific and Industrial Research group investment in property, plant and equipment	Council for Scientific and Industrial Research	Construction

Appendix 1: Major public infrastructure projects under way per sector

Project	Implementing agent	Project stage
Other economic services		
Upgrade of personnel accommodation facilities and equipment in national parks	Department of Environmental Affairs	Construction
Upgrade of roads and infrastructure in national parks	Department of Environmental Affairs	Construction
Sentech digital terrestrial television migration project	Sentech	Construction
Transport and logistics		
Rolling stock fleet renewal programme	Passenger Rail Agency of South Africa	Construction
Signalling and telecommunications programme	Passenger Rail Agency of South Africa	Construction
Upgrade of airport facilities	Airports Company South Africa	Construction
General overhaul of Metrorail coaches	Passenger Rail Agency of South Africa	Construction
New runways, taxiways and aprons	Airports Company South Africa	Construction
Upgrades and additions to airport buildings	Airports Company South Africa	Construction
Rail depot modernisation programme	Passenger Rail Agency of South Africa	Construction
Refurbishment of aprons and roads	Airports Company South Africa	Construction
Security upgrades (stations and corridors)	Passenger Rail Agency of South Africa	Construction
Capital intervention programme (safety, emergency and special needs projects)	Passenger Rail Agency of South Africa	Construction
Water and sanitation		
Construction of water supply and sanitation systems, in Limpopo	Department of Water and Sanitation	Construction
Construction of bulk water supply in Giyani – Phases 1 and 2	Department of Water and Sanitation	Construction
Upgrade of bulk water supply in Mogalakwena – Phase 1	Department of Water and Sanitation Department of Water and Sanitation	Construction
Upgrade of waste treatment works in Sebokeng – Phases 1 and 2	Department of Water and Sanitation	Construction
Construction of bulk water supply and sanitation systems, in North West	Department of Water and Sanitation	Construction
Construction of bulk regional sewerage, in Sedibeng	Department of Water and Sanitation	Feasibility
Construction of regional bulk wastewater treatment works, in Westonaria/Randfontein (Zuurbekom)	Department of Water and Sanitation	Design
Upgrade of Madibeng bulk water supply – Phase 2	Department of Water and Sanitation	Construction
Construction of Thembisile bulk water supply (Loskop) – Phase 1	Department of Water and Sanitation	Construction
Construction of Driekoppies bulk water supply	Department of Water and Sanitation	Construction

Source: National Treasury

APPENDIX 2:

PIPELINE OF PPP PROJECTS UNDER REVIEW

Project	Implementing agent	Project description	Status
Education			
Gauteng schools programme	Gauteng Provincial Government	Design and construction of new schools	Feasibility
Ikusasa	Department of Higher Education and Training	Student Financial Aid Programme	Feasibility
Energy			
Rooftop solar project	Gauteng Department of Infrastructure Development	Installation of solar panels on Gauteng provincial government buildings	Procurement
Health			
Tri-generation Chris Hani Baragwaneth Hospital	Gauteng Department of Infrastructure Development	Installation of trigeneration plants at the Chris Hani Baragwaneth Hospital to reduce dependence on the national grid	Procurement
Tygerberg Hospital	Western Cape Department of Health	Development of Tygerberg Hospital and equipment provision	Feasibility
Office accommodation			
Kopanong Precinct	Gauteng Department of Infrastructure Development	Construction of Gauteng provincial government office to consolidate administration function of 19 buildings in the Johannesburg central business district	Feasibility
KwaZulu-Natal Government Precinct	KwaZulu-Natal Department of Public Works	Construction of an office precinct for KwaZulu-Natal provincial departments in Pietermaritzburg	Procurement
Bhisho Office Precinct	Eastern Cape Department of Roads and Public Works	Construction of offices for seven Eastern Cape departments in a single location in Bhisho	Procurement
Innovation Hub	Gauteng Department of Economic Development	Development of a science park where entrepreneurs will network and exchange ideas	Procurement

Appendix 2: Pipeline of PPP projects under review

Project	Implementing agent	Project description	Status
Office accommodation			
Ekurhuleni Precinct	Ekurhuleni Metro Municipality	Consolidation of the municipality's various service-delivery departments into a centralised municipal office	Feasibility
New municipal office project	Bitou local municipality	Consolidation of the municipality's various service-delivery departments into a centralised municipal office	Procurement
Head office accommodation	Department of Science and Technology	Design and construction of new building and refurbishment of an existing building	Feasibility
Solid waste			
KwaDukuza waste services	KwaDukuza Local Municipality	Collection and disposal of solid waste from households	Procurement
Solid waste diversion and beneficiation opportunities	Nelson Mandela Bay Municipality	Development of waste management infrastructure to treat waste for beneficial reuse or sale	Procurement
Mossel Bay regional landfill facility	Eden District Municipality	Development of a solid waste landfill	Procurement
Transport			
Gautrain Rapid Rail Link extension	Gauteng Department of Roads and Transport	Expansion of the existing Gautrain rail network	Feasibility
Gauteng: Acquisition of additional rolling stock	Gauteng Department of Roads and Transport	Procurement of 48 additional coaches and expansion of depot facility to accommodate increased demand	Feasibility
De Aar Logistics Hub	Northern Cape Department of Transport, Safety and Liaison	Provision of a sustainable transport network for the transportation of freight/products by small miners and farmers	Feasibility
Border posts	Department of Home Affairs	Redevelopment of six border posts	Feasibility
Procurement of emergency towing vehicles	Department of Transport	Procurement of two emergency towing ocean vessels	Feasibility
Water and sanitation			
Polokwane sanitation project	Polokwane municipality	Increase wastewater treatment capacity	Feasibility
Umhlathuze wastewater services	Umhlathuze municipality	Development of a regional wastewater treatment plant for industrial customers	Feasibility

Source: National Treasury

APPENDIX 3:

A SELECTION OF MAJOR PUBLIC- AND PRIVATE-SECTOR PROJECT ANNOUNCEMENTS 2015 TO 2018

Date announced	Project	Company	Estimated completion date	Estimated value
2015				
Jan 2015	N2 Wild Coast toll road megabridges project	South African National Roads Agency Limited	Aug 2021	R3.30-billion
Mar 2015	Ngqura liquid-bulk terminal storage	Oiltanking Grindrod Calulo Holdings	Mar 2019	R2.90-billion
Mar 2015	Palabora Copper's Lift 2 project	Bauba Platinum	Dec 2033	R9.30-billion
Jun 2015	Vaal River City development project	Gauteng provincial government and the River City Development Company	Dec 2020	R4-billion
Oct 2015	BMW Rosslyn plant upgrade	BMW	Jun 2019	R6.16-billion
2016				
Jan 2016	State-owned vehicle manufacturing plant project	Industrial Development Corporation and the Beijing Automotive Group Corporation	Dec 2027	R12-billion
Mar 2016	Clairwood Logistics Park and Distribution Centre	Fortress Income Fund	Dec 2020	R3.50-billion
Apr 2016	Ivanplats Platreef project Phase 1	Ivanhoe Mines; Itochu Corporation; Japan Oil, Gas and Metals National Corporation; ITC Platinum Development; JGC	Dec 2019	R17.71-billion
Apr 2016	Leratong City integrated nodal development project	McCormick Property Development, Calgro M3 and Sasuka Logistics Services	Dec 2020	R4.20-billion
Apr 2016	Sumitomo investment programme Phase 2	Sumitomo Rubber South Africa	Jun 2020	R2-billion
Jun 2016	Moloto road upgrade	Department of Transport	Dec 2021	R3.70-billion
Aug 2016	Musina-Makhado special economic zone energy and metallurgical industrial park	Limpopo Department of Economic Development, Environment and Tourism	Apr 2021	R40-billion
2017				
Jan 2017	Sibaya Coastal precinct project	Tongaat Hulett Developments	Dec 2038	R50-billion
Feb 2017	Health facility revitalisation	Department of Health	March 2020	R3-billion
Mar 2017	Leeuwpoort housing project	Gauteng Department of Human Settlements	Dec 2024	R8.90-billion

Appendix 3: A selection of major public- and private-sector project announcements 2015 to 2018

Date announced	Project	Company	Estimated completion date	Estimated value
2017				
Mar 2017	Irene Boulevard mixed-use precinct	Abland, Giflo Developments and SOM	Apr 2019	R2.50-billion
Mar 2017	Thabametsi coal mine project Phase 1	Exxaro Resources	Dec 2022	R3-billion
Apr 2017	Clayville mixed-use housing project	Gauteng Department of Human Settlements	Dec 20222	R6-billion
Apr 2017	Higher Education and Training infrastructure investment	Department of Higher Education and Training	Dec 2019	R7-billion
May 2017	Bylde at Riverwalk Estate project	Crystal Lagoons and Balwin Properties	Dec 2019	R4.20-billion
Nov 2017	Oceans Mall	Edison Property Group and Ducatus Properties	Jun 2020	R4-billion
2018				
Jan 2018	Klipspruit life extension project	South32	Dec 2019	R4.30-billion
Jan 2018	Offshore supply base	Transnet	May 2023	R1.80-billion
Jan 2018	Sinopec/Chevron refinery upgrade	Sinopec	Dec 2023	R6-billion
Feb 2018	Mafikeng Bophelong hospital	North West Department of Health	Dec 2021	R1.10-billion
Feb 2018	Technical and vocational education and training college campuses	Department of Higher Education and Training	Dec 2021	R2.50-billion
Feb 2018	Siloam hospital	Limpopo Department of Health	Dec 2021	R1.60-billion
Mar 2018	144 Oxford office development	Growthpoint Properties	Oct 2019	R1.20-billion
Apr 2018	Renewable Energy Independent Power Producer Procurement Programme Round 4	Various companies	Dec 2024	R38-billion
May 2018	Tshwane Auto City Phase 1	Automotive Industry Development Centre	Dec 2019	R3-billion
Jun 2018	Teraco Isando expansion	Teraco	Sep 2019	R1-billion
Jul 2018	Sappi Saiccor expansion plan – Project Vulindlela Part 1	Sappi	Dec 2019	R2.70-billion
Jul 2018	Sappi Saiccor expansion plan – Project Vulindlela Part 2	Sappi	Dec 2025	R5-billion
Sep 2018	Gloria manganese mine modernisation	Assmang	Dec 2022	R2.70-billion
Oct 2018	Aspen sterile anaesthetics plant	Aspen Pharmacare	Jun 2020	R3.40-billion
Oct 2018	Jewel City redevelopment	Divercity Urban Property Fund, RMH Holdings, Ithemba Property Group, Atterbury, Talis Holding Group and Nedbank Property Partners	Dec 2020	R1.20-billion
Oct 2018	Ntshongweni Mall Phase 1	Tongaat Hulett	June 2021	R1.80-billion
Oct 2018	Saxony Sandton development	Saxony Developments	June 2021	R2-billion

Source: Nedbank Capital Expenditure Project Listing: 1 January 1993 to 31 December 2018 and Creamer Media's Research Channel

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