Who dares wins

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In a highly competitive market, innovative firms find their opportunity

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It has taken a long industry slump to get construction firms to change the way they conduct business. High competition for tenders and low profit margins created an urgent need for a different approach.

In road construction and repair, Raubex felt other firms crowd into its space which, at the time, was one of the few areas which still had tenders up for grabs. It was also struck by a critical national shortage of bitumen, which led to project delays and pushed costs up.

The company responded by purchasing a bitumen processor, which improved supply dramatically. It also sought to grow the business to secure its place as a significant road builder. Its investment paid off, the firm expanded and now offers clients (predominantly the SA National Roads Agency) a full list of products such as asphalt, concrete and bitumen, and services such as road construction, rehabilitation and repair.

It has also grown its cash pile, giving teeth to its strategy to expand. Acquisitions, says CEO Rudolf Fourie, could present themselves from the number of Raubex's competitors which have been liquidated or are locked in business rescue.

And its recently launched business unit, Raubex Infrastructure, intends tapping into government projects, a new revenue stream. It aims to target solar power, railways, water, mining, telecoms and housing infrastructure. Fourie says construction already offers better prospects, compared to this time last year. Competition levels - particularly in road construction - has begun to drop and margins are expected to increase, albeit slightly.

When industry conditions get tough, being in a position to offer a full value chain of products and services gives Raubex a distinct advantage, says Fourie. In spite of strong competition, the company has still produced better than average margins.

Fourie says Raubex has strengthened its presence in Gauteng and KwaZulu Natal. There is still room to expand into other regions, among them the Eastern and Western Cape, and even beyond SA's borders. But Raubex's strategy is conservative. Fourie says he prefers to work in SA, unless the company can get projects with double digit margins, to justify the higher risk, elsewhere in Africa.

Raubex's annual results for the year to February show revenue rose 12% to R5,6bn, while operating profit declined by 9% to R483,8m. The drop is attributed to the R58,8m penalty which Raubex will pay to the competition commission (operating profit would have otherwise increased by 2%). Its operating margin dropped to 8,6% from 10,6% (9,6% without the penalty).

Confidence in the firm has also increased and analysts recommend the share to investors, particularly those with a long-term bias. This week, small construction firm Protech Khuthele released its results for the same period, which show that its strategic turnaround is beginning to bear fruit. Under CEO Antony Page, the company is evolving from an owner-managed culture to what he calls a professionally led construction company.

The strategy has focused on attracting industry specialists, putting in place tighter risk management processes for tender selection, reducing debt, better project management and equipping management with the tools to support decision-making and monitor performance.

Protech's turnaround is not complete, but its early successes have led to an unsolicited bid from Eqstra for the shares in Protech that it does not already own. Protech reported a 6% rise in revenue, to R1bn, for the year to February. It says revenue from mining related contracts make up the majority of it, while 23% of revenue was generated outside SA. But its strategy to only bid for higher-margin work has contained its revenue growth.

Operating profit rose to R46m, from a loss of R3,8m previously, and the operating margin increased to 4,5% from 0,4%. Earnings per share jumped to 4,4c from a loss of 3,1c. Its net debt to equity ratio is 11%, compared with 64% a year ago. And cash is up 74%.

Cement producer PPC also released results for the year to February. It exceeded its own growth target of 4%, by achieving a 6% improvement in cement sales during the first half of the 2013 financial year. Sales increased in the inland markets, as well as in the Western Cape, where investment has been low in recent years.

However, sales of lime and aggregates dropped by 20%, causing the division's revenue to drop by 16%. Weak cement sales in Botswana, strikes at the Medupi power station and the rising market share of cheap imports were other factors that affected its performance. PPC has long planned to diversify away from SA - where cement is oversupplied. By 2016, it wants to increase overseas sales to 40%, from 21% at the moment.

To do this, it has set in motion plans to increase its sales by 3Mt. Projects in Ethiopia, Rwanda, Zimbabwe and the Democratic Republic of Congo are all set to be completed by the end of 2015. PPC CEO Ketso Gordhan also wants to increase sales by wading into public-private partnerships. He has already had informal discussions with government and the Development Bank of Southern Africa. Locally, Gordhan has accepted that imported cement, primarily from Pakistan, is a growing threat. The market share of imports rose to 6,6%, compared with 6% six months ago, according to Gordhan.

PPC has abandoned its plans to appeal to the national regulator for compulsory specifications about the quality and mislabelling of imported cement, saying most of its concerns have been addressed. However, Gordhan says it may still approach the International Trade Administration Commission with a view that imports are stealing the market share of local firms.

PPC's revenue increased by 8% to R3,8bn. Operating profit dropped by 12% to R751m, though this is largely attributed to its Zimbabwean indigenisation deal and a charge related to its empowerment deal. EPS ended 21% lower at 62c.Meanwhile, Stefanutti Stocks says it has overcome problems in its buildings division, which led to penalties levied on the firm

because of late completion. But Stefanutti was hit hard by a huge R323m penalty, payable to the competition commission for collusive activity.

Stefanutti's revenue for the financial to February increased by 17% to R9,4bn. Operating profit declined by 35% to R234m, largely because of the penalties. This resulted in a drop of its operating margin from 4,5% to 2,5%.