# Aveng appears to be on the road to rehabilitation

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Turnaround is resulting in consistent operational and financial improvement.

The rehabilitation of JSE-listed construction and engineering group Aveng to financial health appears to be gaining traction despite the disruptions caused by Covid-19.

In a voluntary pre-close trading update published on Wednesday, Aveng said its open-pit mining business Moolmans continues on its turnaround path and has shown consistent operational and financial improvement over the last 24 months while its Australian-based specialist infrastructure subsidiary McConnell Dowell is expected to deliver a strong full-year profit, "with second half profits exceeding the first half".

Aveng reported a significant increase in group operating earnings to R280 million in the six months to December 2020 from R14 million in the prior period, with McConnell Dowell, Moolmans, Trident Steel and Manufacturing all profitable.

McConnell Dowell grew its operating earnings in this reporting period by 136% to Au$13 million from Au$5.5 million and recorded its highest six-months revenue in five years while Moolmans grew its operating earnings by 12.8% to R132 million from R117 million.

Aveng said on Wednesday the group's positive performance has continued into the second half of the financial year with improved revenue and earnings before interest and tax (Ebit).

"While cash flow was negative, in line with plan for the second half, it remains strongly positive for both the full year and in comparison to the prior year," it said.

**McConnell Dowell**

Aveng said McConnell Dowell is expected to deliver a strong full-year profit, with second-half profits exceeding the first half while revenue for the full year is expected to be more than 30% higher than the prior year.

"While demonstrating a return to profitability, the comparative period loss resulted from a decision to accept a settlement offer in respect of two long-outstanding claims, securing important liquidity in the face of the uncertainty of the emerging Covid-19 pandemic at that time," it said.

"Excluding the impact of the settlement offer, McConnell Dowell continues to demonstrate strong growth in operational profit.

**"The improvement is a direct result of continued growth in revenues and work in hand, notably in Australia."**

Aveng said McConnell Dowell's work in hand of Au$2 billion remained in line with the reported figure at end-December 2020 but it has won Au$1.4 billion in new work in the period to end-April 2021 and expects further awards by end-June 2021.

"The value of the preferred tender status currently exceeds Au$1 billion, with new projects added to this category as projects have successfully transitioned through award from preferred status to contracts included in work in hand.

"Projects under the preferred bidder status represent an important lead indicator of the future success of McConnell Dowell," it added.

**Moolmans**

Aveng said although Moolmans' revenue for the second half of the financial year is likely to remain flat compared to the prior period, Ebit for this period is expected to be in line with first half results.

It said the first half included certain end-of-contract profits and cash flows that were not repeated but it is expected that Moolmans' operating free cash flow for the year will remain positive for the full year and reflect an increase compared to the 2020 financial year.

It said Moolmans had R6.5 million work in hand at end-April 2021 and a near term contract opportunity pipeline of about R20 billion.

Major contract awards secured by Moolmans year-to-date include a R1.3 billion opencast mining services contract at Seriti's Klipspruit mine and a R1.5 billion opencast mining services contract at Vedanta's Gamsberg mine.

**Rights offer**

Aveng executed a successful rights offer and balance sheet restructure in March 2021, which reduced group debt from R2.1 billion to R1.1 billion and significantly deleveraged the group.

The remaining debt owing to Aveng's South African lenders was renegotiated as part of the balance sheet restructure transaction and is repayable over a three-year term at more favourable rates, and a further R100 million was raised from the follow-on rights offer concluded on June 4.

Aveng said on Wednesday the group's strengthened balance sheet has allowed Moolmans to embark on a heavy mining equipment renewal plan, which will be implemented in a phased and disciplined manner to ensure an attractive return to shareholders and enhance Moolmans' value offering to its customers at a critical phase in the commodity cycle.

**Trident Steel**

Trident Steel, which is deemed non-core and is earmarked for disposal, recorded increased profitability at end-December 2020 following a strategic shift to focus the business unit as a steel services centre, primarily serving the automotive sector.

Aveng said Trident Steel's performance in the first half of the year continued through the second half because of increased demand from original equipment manufacturers (OEMs).

"Trident will report strong Ebit growth compared to the prior year … [and] has secured new long-term awards with major OEMs.

"These awards bode well for the sustainability of the current business and provide growth opportunities into the future," it said.

**Analysts' comments**

Rowan Goeller, an analyst at Chronux Research, said Aveng looks promising because the group is effectively left with Moolmans and McConnell Dowell, which seem to be posting reasonable numbers "in that they can possibly get out of the balance sheet hole they are in at the moment".

"They have had the rights offer as well, which will have helped," he added.

However, Goeller said Aveng's debt levels are still relatively high and it did not comment on the remaining liabilities in South Africa – related to some of its construction operations from Grinaker–LTA – on certain projects that are still unwinding.

Aveng sold Grinaker–LTA, its southern African construction and engineering business, to the black-owned Laula Consortium in December 2019 for R72 million.

Another analyst, who did not want to be named, said it appeared that Aveng is making some real progress and is in a much more stable position.

"It's not unlike Murray & Roberts in that it has big order books that still have to be executed at the budgeted margin," he said.

**Shares in Aveng closed unchanged on Wednesday at R0.04.**