

Aveng: Operational and trading updates 'factually accurate and aligned'

Thursday, 17 February 2022

JSE-listed construction and engineering group Aveng maintains that both its operational update issued last month and this week's trading statement are "factually accurate and aligned".

This follows Aveng's shares plunging more than 17% in afternoon trade on the JSE on Monday to close at R22 a share on the day, after the share price weakened by as much as 35% at one point following the group's publication of its latest half-year trading update.

Aveng Group CEO Sean Flanagan said on Wednesday: "Nobody is more frustrated than I am around this issue because it's a pure technical accounting issue, which is getting in the way of another good six months performance."

Aveng group financial officer Adrian Macartney said the group will be releasing its financial results on Tuesday for the six months to end-December, adding: "You are going to see that McConnell Dowell delivered a dollar number that is very similar to the prior comparable period as did Moolmans as did Trident Steel.

"When you look at it, that is exactly what we stated in our January Sens," he said.

Explanation awaited

Aveng has been under pressure to explain the differences in its operational update issued in January this year and its trading update published this week, which led to the slump in the group's share price.

Some analysts this week questioned how the trading update could highlight that Aveng is expected to report headline earnings of between R14 million and R19 million, compared to R109 million in the previous corresponding period, representing a decline of between 83% and 87%, when no mention was made about this in the operating update.

One shareholder said Aveng gave an update less than a month ago indicating that all seemed good and everything was in line with budget but now issues a trading statement that says earnings will be down 90%.

"There's a R400 million drop in earnings – not just a R50 million drop due to Trident Steel accounting issues. Completely misleading," the shareholder said.

"What are they thinking? Surely one can't trust people like this."

Macartney said it is most unfortunate that these serious allegations have been made by unnamed parties who choose to not engage with Aveng.

Anomalies

Macartney said the trading statement clearly sets out the anomalies associated with the application of International Financial Report Standards (IFRS) 5 accounting.

"This accounting has been discussed with our auditors. The accounting impact in the comparable period was equally drawn to the attention of shareholders in the 2021 presentation.

"We pride ourselves on our transparency with all stakeholders, which in the normal course of business includes complex messages which sometimes include welcome, and sometimes less welcome news.

"It is this transparency that has helped us gain and retain the trust and support of all our stakeholders.

"Any statement to the contrary would be reckless, false and defamatory," he said.

Macartney stressed that misleading the market is a very specific allegation that Aveng takes very seriously because it has criminal consequences.

He said that in the prior period, there was a R450 million fair value gain and one of the two different concepts of IFRS 5 is that if you hold an asset for sale, it is valued at fair value less cost to sell and any movements in that asset value are recognised through a fair value loss or gain line item in the income statement.

"That was fully disclosed and separately identified and pointed out to the market in our results for the half year in the prior period," he said.

In terms of IFRS 5, if an asset held for sale is not sold within a year, it has to be reclassified as a continuing asset.

Trident Steel

Flanagan said the accounting standards are quite technical but Aveng is still absolutely committed to selling Trident Steel but will not sell it for below value.

"We are in negotiations with a couple of parties so it's absolutely still for sale but the financial guys, the accountants and auditors etc, are bound by rules that requires us – notwithstanding that it is for sale – to reclassify it as not held for sale.

"I think it's madness but I'm not an accountant," he said.

Macartney believes there is a lack of understanding of a difficult topic and a reclassification of an asset but the asset itself has not performed differently.

"In fact, it has performed better," he said.

Turnaround

Aveng in August last year reported headline earnings per share of R751 million in the year to end-June 2021 compared to the R950 million loss in the previous year on the back of a 23% rise in revenue to R25.7 billion from R20.9 billion.

This prompted Flanagan to say at the time that they see the year to end-June 2021 "as a very very significant step forward in our road towards returning Aveng to the status it used to hold".

Flanagan said on Wednesday this is "absolutely" still intact.

Macartney added that there are particular rules about providing pro forma information to investors and Aveng will provide that reconciliation in its full set of results and presentation but the JSE does not like companies to provide explanations in trading statements of what is referred to as normalised earnings.

"So there is a bit of an issue in that," he said.

Shares in Aveng declined by 0.58% on Wednesday to close at R22.40.