

Aveng management confident the growth story is on track despite jittery shareholders

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Shareholders in recently turned-around stock Aveng were rattled by recent results, but management says they are reading in more bad news than they should, and the picture is intact. The shareholders, however, are not convinced.

Management of the JSE-listed mining and engineering company Aveng is exploring an international listing on the Sydney or Singapore stock exchange, arguing that as a largely dollar-based company it needs to raise capital in a foreign currency.

In addition, despite the fact that the restructuring, initiated in 2018, is largely on track with operational performance improving and profitability showing signs of being sustainable, most institutional investors are not interested in holding the share. This is despite a 500:1 share consolidation last year, which saw the share price adjust from a 6c penny stock to a more meaningful R27 per share – although it has since dropped to about R20 per share.

"We do believe that we will achieve a better rating of our assets offshore," says CEO Sean Flanagan. "Ultimately, we need to consider our ability to raise R1-billion versus \$100-million, and these are markets with depth and liquidity."

Institutional investors that are still watching from the sidelines following last year's rights issue may pay attention in time as management's focus is shifting from the balance sheet restructure and return to profitability of 2021, to laying the foundations for growth in 2022. The growth focus includes further balance sheet optimisation – supported by R320-million of debt repayments, and the sale of Trident Steel, which is still a priority despite the fact that it had to be reconsolidated into the accounts, as per accounting regulations. This debt reduction will enable management to negotiate improved lending rates, supporting the bottom line.

On the top line, the focus will be on expanding infrastructure specialist McConnell Dowell into parts of Australia where it is under-represented. In addition, Pan-African mining company Moolmans will invest in optimising its plants and renewing its fleets, which has not been done since 2015.

This means that Moolmans has not been able to fully capitalise on the best mining environment in years. "Better performance from the plants and fleet will ultimately benefit both top line and bottom line," says CFO Adrian Macartney.

While management is confident the growth story is on track, the market is jittery following the release of results for the six months to December, which reported headline earnings for the period of R17-million compared with R109-million in the prior period; earnings of R53-million, compared with R438-million; and earnings per share which decreased to 43 cents per share from 909 cents per share in the comparative period.

Management explained that earnings had been affected by the reclassification of Trident Steel as a continuing operation from an asset that was held for sale. Accounting rules will not permit an asset to be classified as a discontinued/held for sale asset for longer than 12 months.

This creates a lot of noise around the financials. To get a better sense of performance, one should look at core revenue, which rose to R11.2-billion from R10.5-billion despite a tough operating environment, says Macartney. He notes that travel restrictions and lockdowns brought on by Covid-19 continued to affect performance. In addition, South Africa was hit by riots, a steel industry strike and a global shortage of semiconductors affecting the automotive sector.

Normalised earnings, which exclude significant non-recurring items, increased from R73-million to R82-million, despite the fact that operations in Southeast Asia were affected by Covid regulations in those countries.

But shareholders are not convinced. "This is a poor set of results, complicated by some significant IFRS adjustments," says Paul Floquet, a fund manager at Flagship Asset Management.

Investors, he says, were hoping for the upward trend from 2021 to continue, but there is much to be disappointed about, not least of which is the contraction in operating cash flow from R1.4-billion this time last year to just R490-million in the current year.

"Although cash balances are healthy at just over R3-billion and borrowings are sustainable at current levels, the normalised earnings margin at less than 1% highlights the inherent risk in the business."

Cash flow was impacted by the steel industry strike and the global shortage of semiconductors, which affected Trident Steel. While Aveng has sufficient cash on hand – thanks to the capital raise of last year and good results out of Australia, it is Moolmans' ability to generate cash that investors will be watching closely.

"The pressure on cash flow in the South African businesses is cause for concern," Floquet says.

Work in hand grew by 15% to R29.1-billion on the back of McConnell Dowell winning new work, mostly in Australia, although this was offset slightly by a small decrease in Moolmans' work in hand as the company continued to focus on terminating contracts that are marginal.

Over the next 30 months, the pipeline of shortlisted, tendered for and other potential business is roughly R100-billion across the two businesses.

"This is not to say that we will win all of this business, but it is evident that we have a clear pathway to growth, with the tender pipeline in Africa particularly robust," says Flanagan. DM/BM