

Aveng slumps almost 20% after warning of hit from project delays

Thursday, 13 April 2023

Shares of construction and engineering group Aveng slumped almost a fifth on Thursday, after it warned that its Australasian specialist contract McConnell Dowell is expected to post an operating loss in its year to end-June, with the company hit by extra costs related to a delayed gas project in the Philippines.

The liquefied natural gas (LNG) project has been the subject of significant delay and disruption caused by the pandemic, including related supply chain disruptions and the inability to mobilise people to the requisite locations to efficiently execute work, the company said, with the client electing to call on project guarantees of almost R530 million.

In late afternoon trade Aveng's shares were down 18% at R9.71, having now lost almost 42% of their value over the past year.

International and domestic Australian border closures made travel impossible over an extended period of the project's life, to the Batangas site in the Philippine, and other locations where equipment was being manufactured. Later supply chain disruptions were further exacerbated by the Russia-Ukraine war.

"It is now evident that the BLNG project has suffered further delay and is expected to be completed later this calendar year," it said.

Negotiations are continuing with the client to take into account the impact of Covid-19, the Russia-Ukraine war and the resolution of certain contract claims, including claims for extension of time. But despite this "and our continued efforts to ensure that the project is delivered safely to the appropriate level of quality and in the shortest timeframe", the client has elected to call on project guarantees .

McConnell Dowell settled an amount of R123 million to the group's Australian bankers with a further R123 million expected to be settled by 30 June.

"These same bankers are supportive and we are currently agreeing repayment terms for the remaining balance," it said. The company had cash on hand of about R2 billion, with the company saying that, along with extended payment terms, it would be able to fully support the company's working capital needs.

McConnell Dowell also believes, however, that it is prudent to provide for the anticipated additional costs associated with the extended time to complete the project, together with an allowance for possible liquidated damages associated with delayed completion, given that the client has not yet granted an extension of time. Despite this, the company is still eyeing surplus cash at its year end, while it said its Australian and New Zealand & Pacific business units continue to perform well, with McConnell Dowell having high levels of work in hand, representing 92% of planned revenue for the next financial year.

Valued at about R1.43 billion on the JSE, Aveng's other core business in mining contractor Moolmans, and it is has been battling a hefty debt pile that peaked at R3.3 billion in 2018. But it is now close to extinguishing its legacy SA debt, which now stands at R353 million.

In 2022, the company had inked a deal of about R1 billion - including its net cash - to sell its Trident Steel business, which it expects to be concluded towards the end of June.