

Thursday, 30 August 2007

Spending on infrastructure and housing likely beyond 2010

Construction boom set for extra time after World Cup

Abdul Milazi

Trade and Industry Editor

THE boom in the building sector, which has seen 11 construction companies list on the JSE since the beginning of the year, is here to stay — at least for the next 10 years.

This is the bold outlook shared by industry players and analysts about industry prospects.

This month alone saw five listings on the construction sector — three on the main board and two on the AltX.

Pessimists have dismissed the boom as a "helium sphere" that will burst after the 2010 Soccer World Cup has ended.

Last year, Public Works Minister Thoko Didiza said growth in the construction industry was inevitable, even without the impetus provided by the soccer extravaganza.

Makwe Masilela of Nehawu Securities says development of infrastructure as well as growth in the private sector, such as residential and retail development, should cause the boom to last for years.

He says road infrastructure in Johannesburg and Cape Town, ports and airports development and the general housing backlog are opportunities that will continue to boost the industry well beyond 2010.

Jewelwyn van Wyk, senior researcher at the Council for Scientific and Industrial Research, says the rush to the JSE by the construction industry is good for the economy. But on whether the listings will be sustainable when the industry levels out, he says: "It is natural to see many companies springing up during a boom, and either be swallowed up by big ones or trim noncore operations when contracts dry up."

Murray & Roberts CEO Brian Bruce recently said SA's construction economy, which had been in retreat for three decades, was on the cusp of a new cycle of growth that would last a couple of decades.

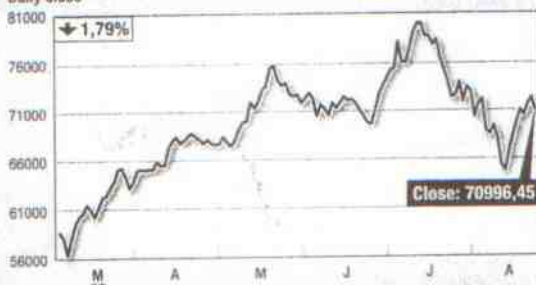
Group Five has benefited from the government's increased spending on infrastructure, with revenue from its construction division up 39.1% to R3,5bn, making up 88% of total revenue.

Construction chemicals supplier ABE Construction Chemicals became the latest construction company to list a week ago, signalling a strong response by the private sector to the South African economy's thirst for fixed investment.

Last month's listing of electrical and instrumentation construction company B&W was proof that the World Cup was not the only driving factor in the construction boom. The group said the R30m raised on

FTSE-JSE CONSTRUCTION AND MATERIALS

Daily close



listing would enable it to continue expansion in the growing electrical and instrumentation market, valued at R6,5bn over the next five years in SA alone.

B&W said with demand for power generation plants and new mines in the pipeline in SA and across Africa, the group was particularly targeting the mining, energy and oil and gas sectors.

Geotechnical engineering company Esor, which listed in March last year, recently blazed a trail as the first construction-related company on AltX to declare a dividend when it declared one of 6c a share, three times higher than forecast.

The group more than doubled revenue to R291,4m from R125m for the year ended February, attributing the phenomenal growth to the construction boom.

Construction group Sea Kay Holdings said this month that the affordable housing sector, which was bucking the trend in a moderating residential property industry, would drive new growth in construction.

Construction group Basil Read recently recorded the highest turnover increase in the group's 54-year history, with its share price growth beating the all-share index by a large margin, posting a revenue increase of 88%.

Civil engineering specialists Sanyati Holdings has berfed up its order book with new contracts worth R213m.

The steel industry is also benefiting, with local steel consumption continuing to soar due to the increase in infrastructure spending by both private and public sectors.

According to the International Iron and Steel Institute, total local crude steel production increased to 9,722-million tons last year, from 9,494-million tons in 2005.

Skills remain a challenge in the industry and Richard Pike, CEO of Adcorp Holdings, SA's leading broad-based recruitment services company, says SA is producing about 1 300 engineers a year when the country needs about 13 000 a year to meet demand.

The shortage has forced Pretoria Portland Cement (PPC) to launch its own academies in North West to address the shortage of skills in the cement and mining industries.

Many analysts are saying they are confident of a sustained boom for the next 10-15 years, particularly given the potential for sustained economic growth and prospects for expanding the level of fixed investment as a percentage of gross domestic product (GDP).

SA's present gross fixed capital formation as a percentage of GDP is 17%, with the government recently setting a target of 25%.

Nehawu's Masilela says the present boom is no fluke as SA previously sustained a construction boom for three decades — from the Second World War right up to the 1970s oil crisis.