Aveng in big drive to settle claims

By Giulietta Talevi

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Construction group Aveng has thrown the kitchen sink at a host of long-outstanding claims - and plans to book a R2.7bn impairment charge as a result.

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That will push it to a full-year headline loss of between R6.3bn and R6.6bn - a staggering figure given that its market cap at Wednesday's close was R1.46bn. Yet the news helped drive Aveng shares 28% higher at one point. They closed 20.7% up.

Aveng is keen to emphasise that the impairment will have no cash consequence on its results and it has also reached agreement with its major funding banks to renew and extend its debt, some of which is moving close to maturity. This means that the company "now has sufficient liquidity to execute on its plans to return the business to a position of sustainable profitability", according to a statement.

Lentus Asset Management portfolio manager Nic Norman-Smith said the clarity on its liquidity was "one of the most positive" aspects of the update.

"It provides a bit more certainty - there were a number of items hanging over the company," Norman-Smith said.

"Can you draw a line in the sand? One would hope so but the environment will play a key part," he said.

The news also means that Aveng is now no longer trading under cautionary.

Its results will be made public on Tuesday after management has delayed their release. The company, whose shares have halved over the past year, said its decision to take such a big write-down was partly influenced by the recent award of R508m to it over the Queensland Curtis Liquefied Natural Gas project in Australia, which was "substantially less" than the carrying value.

Aveng said the "increasing complexity" of claims, the "everincreasing and protracted litigious environment and costly process" in settling claims and the disruptive effect on management and the group's reputation were behind its decision to finally close the book.

However, a long-standing dispute between Aveng and Genrec Engineering - owned by Murray and Roberts - has been settled in Aveng's favour, which means a cash award of R238m to Aveng.

That includes a final value of R124m and interest of 15.5% backdated to September 2011.

Still, business is not improving. Its McConnell Dowell and Aveng Grinaker-LTA divisions were expected to return to profit in 2017 but their turnaround "has taken longer than anticipated". Aveng cites weakness in the South African construction market, as well as the "scale and complexity" of intervention efforts in both units.

Aveng's exposure to the steel industry is not helping, either. The company plans to book an additional R272m charge against certain of its steel assets, worth 69c a share.

The toxic finale to its writedown frenzy is a deferred tax asset charge of R531m, equivalent to 134c a share.

Source: Business Day