WILSON BAYLY HOLMES - OVCON LIMITED
Building and civil engineering contractors
(Registration no. 1982/011014/06)
ISIN No: ZAE 000009932
Share code: WBO

MARKET UPDATE: JUNE 2018

The directors of Wilson Bayly Holmes-Ovcon Limited ('WBHO' / 'the group') wish to advise shareholders of developments within the group during the second half of the financial year ending 30 June 2018.

Order Book:

Order book by segment (Rm)	%	30 June 2017	%	31 December 2017	%	30 April 2018
Building and civil engineering	16	7 189	15	7 614	15	6 659
Roads and earthworks	14	6 161	11	5 893	12	5 193
Australia	70	31 526	74	38 904	73	33 172
	100	**44 876**	**100**	**52 410**	**100**	**45 024**

Africa:
Lower activity levels persist within local building markets, particularly in Gauteng. This was however mitigated to some extent by increased activity in the coastal regions where we have been awarded a number of large projects. Margins in the sector remain under pressure and there has been some reduction in the order book of the Building and civil engineering division since the last reporting date. Nonetheless, WBHO remains the preferred contractor and projects on-hand continue to be executed well in what is an exceptionally competitive market. Building activity in the rest of Africa, namely Ghana has been constrained for some time and we continue to operate at reduced levels of activity. Overall, the operating performance of the division remains in line with management's expectations.

In general, the local civil engineering market remains subdued with limited opportunities available.
Activity within the Civil engineering division has been largely supported by the construction of various projects for Exxaro, ongoing work at Kusile and most notably the crude oil terminal facility in Saldanha, executed alongside the Roads and earthworks division. Following the six week strike experienced on this project in the first half of the year, additional operational challenges over the second six months have seen the group maintain its conservative approach to profit recognition. Due to the large-scale nature of the project, this has negatively impacted the operating margin of the division.

The Roads and earthworks division began FY18 with improved order book levels which it essentially maintained through the first half of the year. While the order book has softened by 16% at 30 April 2018, a number of new awards are imminent. The South African divisions have performed well and the award of new mining infrastructure work has been encouraging. However, as with the Civil engineering division, profitability locally has been impacted by the challenges experienced on the crude oil terminal facility. In West Africa, the three mining projects awarded in Guinea and Burkina Faso last year are all essentially complete. Having down-scaled operations in the region in previous years in order to match demand, the simultaneous award of these three projects created initial resourcing challenges. In the interim results we advised stakeholders of difficulties incurred on the Siguiri mine in Guinea which resulted in additional costs. These costs have not been recovered over the second six months and no further profit has been recognised on the project. Increased costs have also been incurred on both other projects in the second half in order to meet the contractual programmes.

The struggling local economy together with high levels of political uncertainty have seen a backlog of infrastructure projects build up over recent years. The change in political leadership alongside a visible commitment to stemming corruption and restoring credible management within state-owned enterprises, will hopefully result in these projects being unlocked over the medium term and bring some 'normalisation' to construction markets.

Australia:
While activity levels have alleviated marginally over the second six months, Probuild will demonstrate strong growth over the full financial year. Despite two difficult projects the remaining 22 building projects are performing satisfactorily. The problematic residential project in Sydney which was reported on in the interim results and was expected to have reached completion in March 2018 required an additional month resulting in further costs. Regrettably, a project in Melbourne will also not meet its contractual completion date culminating in extra costs all of which have been provided for in the second six months. Reduced profitability within the building business will to some extent be offset by a strong performance from WBHO Infrastructure, both in the Eastern and Western regions. The large-scale OSAR road project is progressing well thus far. The successful completion of this project remains key to the strategic outlook for this business.

United Kingdom:
Performance from the Byrne Group in London was in line with expectations over the second six months. Operational activity remained insufficient to meet overhead expenditure, however the group continued to secure work over the period and the outlook for the next financial year is promising. The secured order book at 30 April 2018 now amounts to £352 million. In accordance with the shareholder and investment agreement, the shareholding of the group increased to 80% on 18 June 2018 due to the poorer than expected current year performance.

Construction materials:
Strong competition and aggressive pricing persisted during the second half of the year which combined with an increase in non-payment by contractors due to the challenging environment, has negatively affected profitability over the period. On a slightly more positive note, there has been some consolidation within the market and the recent resurrection of the independent power programme by ESKOM offers opportunities over the medium term, which may alleviate some of the pressure felt by weaker building markets.

This statement has not been reviewed or reported upon by the company’s auditors.

By order of the board

Johannesburg
27 June 2018

Sponsor: Investec Bank Limited