CIG improved results powered by electricity spend and strong delivery from Angolan oil business

[if !supportLists]− [endif]Revenue up 26% to R1.7 billion (2014: R1.3 billion)
[if !supportLists]− [endif]EBITDA up 23% to R206 million (2014: R169 million)
[if !supportLists]− [endif]HEPS up 24% to 110.1 cents per share (2014: 88.5 cps)
[if !supportLists]− [endif]Conco Order book up 30% to R3.7 billion (R2.85 billion)

Consolidated Infrastructure ('CIG')(JSE:CIL) delivered improved earnings across all of its subsidiaries for the six months ended 28 February 2015. The improved earnings were driven largely by a 90% increase in profit contribution from the Angolan based AES oil and gas services operation as well as continued growth and order book improvement from the power and electricity division, Conco.

The Group reported increased revenue of 26% to R1.7 billion, grew profit after tax by 36% to R164 million and reported a cash balance of R460 million of which R99 million has been collateralised to settle an Angolan obligation. Earnings per share and headline earnings per share were 24% higher at 110 cents per share from 88.5 cents per share for the previous period.

The group experienced high growth across its major sectors, with efforts to mitigate associated risks through conservative procurement practices and policies and ensure for sufficient capital for expansion. The group has in place a medium-term note programme to assist with the longer term funding requirements of a growing order book. To date R530 million of medium term notes have been issued as part of the R1 billion medium term note programme

An ongoing diversification strategy across a wider geographic footprint was pursued and as a consequence 50% of profits after tax were derived from outside South Africa. Management's initiatives to diversify the group's operational portfolio across a wider range of business sectors gained momentum and the contribution to group results from the power sector has reduced over the last two years to 53% from 80%.

Conco, which contributed R1.4 billion to the groups revenue continues to gain traction and successfully delivered high voltage electrical infrastructure across all of its African sectors as well as into Saudi Arabia. The subsidiary benefitted from equal demand from African utilities, the larger South African municipalities and South African and international independent power producers.

In the renewable energy arena, Conco demonstrated its capability as a preferred supplier and secured tenders from 70% of the successful round three bidders and is still negotiating on the remaining contracts.

Conco Power Maintenance delivered a maiden profit to the group and increased the number of contracts under management by 33%, the vast majority of which stemmed from the Solar Photovoltaic market.

The Energy Solutions division entered the low voltage market sector to supply motor control centres and distribution boards and performed in line with expectations.

The Building Materials division enjoyed increased demand from the residential building sector and inroads into the turn-around of the Laezonia operation contributed significantly to its overall growth. The division successfully grew market share, albeit with some margin sacrifice.

The group's oil and gas waste disposal provider, AES reported a 66% boost in attributable earnings as a result of increased rentals and waste volumes processed in the period. The acquisition became effective on 1 October 2013 and five months of attributable results were included in the prior interim period. The inclusion of an additional months profit and the depreciation of the rand-dollar exchange rate during the six months, boosted profit for the period by 24%.

Tractionel, the Group's rail business produced below expected revenue and order acquisition for the 4 months, although currently awaits adjudication on R1 billion of tenders.

Commenting on the prospects of the Group, CEO Raoul Gamsu noted:" We are proud of the reputation Conco has gained of providing innovative technical solutions on time and within our client’s budgets, which is demonstrated in the growth in the order book, both in absolute terms and in average project size. The prospects of the division are robust, with an expanded execution horizon and diversified geographic base. Business development initiatives among the geographies should lead to positive outcomes in the next 12 months.
Conco's prospects in South Africa within the larger municipalities and REFIT program are expected to yield above average growth. The entity's position in the renewable energy sector is unique in that the operation has developed a competitive edge as a preferred local provider with the capacity and ability to execute to world class standards. I support management’s view that momentum in the renewable energy sector will continue to grow within South Africa and across the continent.

The change in the broad based black economic empowerment legislation and the weakness in local manufacturing have posed a new short-term challenge to the Power Division’s traction in South Africa. Management are following the required actions to ensure that the Conco South African business maintains its required BEE rating to maintain its ability to transact within South Africa. Initiatives have been also been implemented by Conco management to assist the local manufacturers with orders for additional volumes and contracts.

It is expected that over the medium- to longer-term the biggest constraint to growth will remain the availability of suitably qualified engineers to execute on the expected increase in technically complex work.

Due to the noted undersupply and under service with power and electricity to the African continent, CIG have established CIGenCo. The objective of CIGenCo is to identify niche power generation opportunities and a CEO with an outstanding track record in developing these opportunities in emerging markets has already been hired.

Despite an economy constrained by power shortages and slow growth, it is expected that the Building Materials division should sustain its current growth trajectory.

The AES business is set to grow organically due to the legislated environmental requirements of Angola's zero-waste drill cutting law. Increased production from the oil majors is assisting the business and management is unaware of neither any significant curtailment in oil field development nor exploration in Angola.

It is anticipated that there will be a minor contraction in margins as international oil companies strive to save costs across their supply chains. The impact of this margin contraction should be mitigated from 3 areas. Firstly, volumes should expand to comply with the legislated requirements. Secondly, AES derives 50% of all revenues from long term rentals, which assist in providing a steady annuity stream of income. Thirdly, the relocation of waste processing from rigs located in the North of Angola to the new facility in Soyo enables the international oil companies to materially save on their logistical costs.

Management continues to build capacity in the AES business and evaluate technology partnerships which will aid to grow a sustainable business. The long term growth in demand for oil should also aid the sustained growth in oil services.

The Tractionel rail business provides enormous short- and medium-term potential as South Africa upgrades its rail infrastructure to manage the roll out of its new locomotive program. Management expects projects awards over the next 12 months to have a material impact on the business together with the R1 billion of tenders awaiting adjudication.