

SA construction sector must expand into Africa to overcome slump

While the multidisciplinary South African construction industry contributes significantly to the economy and employment, globally the industry is exposed to the business cycle and has been under tremendous pressure.



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Recent analysis from Frost & Sullivan, titled *Analysis of the South African Multidisciplinary Construction Industry within an African Context*, takes a look at the top 12 heavy construction companies with experience in mining, processing plants, and project management within sub-Saharan Africa for the 2015 financial year. The eight publicly listed, South African EPCM companies analysed in the study witnessed an average decrease in market capitalisation of 31% over the 2015 financial year. These companies also witnessed an average decrease of 52% in market-to-book value from 2011 to 2015, indicating a significant drop in investor confidence. The four remaining companies forming part of the analysis are international businesses with a reputation for delivering projects in Africa, two of which are not publicly listed companies. The analysis offers deep insight into the current financial performance of the companies, the scope of capabilities, and the current challenges faced in the South African construction industry.

Major slump

“Despite the resounding growth experienced in the build up to the 2010 FIFA World Cup hosted by South Africa, the construction industry is currently witnessing a major slump as construction companies face several challenges both locally and globally,” notes Frost & Sullivan’s Chemical, Materials, Food (CMF) industry analyst Lynessa Moodley. “Challenges include employee relations, lack of skilled labour, and liquidity risk resulting in poor overall financial performance of the sector. Increased competition also restrains company profits due to price wars.”

In 2015, slow economic growth hindered the South African construction industry. A weakening exchange rate caused a rise in the import costs of raw material, transportation and project costs. This stalled the demand for engineering, procurement, and construction management (EPCM) work, thereby reducing profitability.

Temporary surge expected

However, Frost & Sullivan expects that the current state of the industry is not expected to remain as such in the long term due to the South African government’s National Development Plan and increased social infrastructure spend, resulting in a

temporary surge in the market. The 2022 Commonwealth Games is also anticipated to contribute to the boost in market growth.

“In order to overcome the current challenging market conditions in South Africa, EPCM companies need to look at alternative markets in Africa where a growth in demand is expected for infrastructure projects and EPCM services,” concludes Frost & Sullivan’s CMF research analyst Kimberley Bryant. “EPCM companies are advised to establish a strategy that encourages trade and business interaction between African countries and focus on the developments related to this network to bring in revenues.”

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