Conference call transcript

27 August 2020

ANNUAL RESULTS INVESTORS AND ANALYSTS PRESENTATION

Ed Jardim

Good afternoon ladies and gentlemen and welcome to the Murray & Roberts annual results presentation for the year ended 30 June 2020. This is a virtual presentation only, so we have our stakeholders on the phone call as well as on the webcast. Before I hand over to Henry just a quick reminder that we would like you to please ask your questions throughout the duration of the presentation. For those on the call if you press * and 1 you will be able to log your question. And on the webcast just to the left of your video screen there's a black box that says questions. That should open up a window in which you can type your question and which we will receive in the room. So there is an opportunity for Q&A at the end of the presentation and we ask that you please ask those questions throughout the presentation so that we can have a constructive Q&A towards the end of the presentation. With that I'd like to hand over to our CEO, Henry Laas. Thank you, Henry.

Henry Laas

Thank you very much, Ed, and good afternoon ladies and gentlemen. Welcome to our 2020 results presentation. A special word of welcome to our Chairman, Dr Suresh Kana, who is also on the call, as well as other members of the Murray & Roberts board. We've got a full agenda for this presentation and I will be assisted by our group Financial Director, Daniël Grobler, who will explain the financial results in a bit more detail. Murray & Roberts is a multinational engineering and construction group, and over the past number of years we've established three very competitive business platforms with unique capabilities and we have also gone a long way in establishing our culture of engineered excellence. Now, for those of you who are not familiar with the concept of engineered excellence, as a group we set ourselves a standard of excellence in everything that we embark on. Whether it is the way in which we engage with our people, the way in which we deliver our projects, the way we engage with stakeholders, we set a standard of excellence. And engineered excellence means that that outcome is an engineered outcome. We plan how we will achieve that standard that we've set ourselves and go about it in a very systematic way to achieve our goals. So that is engineered excellence.

During this reporting period we've encountered a lot of very extraordinary circumstances in the market, but we were not alone. This impact was felt by businesses across the globe. Notwithstanding that the strategic gains that we've achieved over the past number of years have really positioned us well for the future, and we have exited this period of COVID-19, the initial impact, with a strong balance sheet and with a very good order book. Our future growth will not only come by organic means but certainly also through acquisition.

Over the past number of years as we were implementing our new strategic future we've sold off the non-core assets and we have exited the South African construction sector, and we emerged with a business with three business platforms: Oil & Gas, Underground Mining and Power & Water. The Oil & Gas platform when the platforms were established in the group was predominantly focussed on the LNG expansion that was happening in Australia at the time. The Underground Mining business was working globally and the Power & Water platform was essentially focussed on completing our scope of work at Medupi and Kusile. So at this time our focus was predominantly on the natural resources market sectors, but markets are changing and the natural resources markets are cyclical. So we had to find a way to combat this market cyclicality and to deal with the changes that were occurring in our markets, and we introduced the concept of complementary markets.

These complementary markets were part of a broader market focus that we've developed, and this has now become a permanent feature of our strategy. When we defined the target markets for the group it was a little bit broader than purely natural resources, and it is all part of our plan to mitigate market cyclicality. As a consequence of this we have progressed to a point that it became really necessary for us to change the naming convention of our platforms. And what we've decided to do is to change the Oil & Gas platform name to Energy, Resources & Infrastructure. It is better describing the market sector which is served by this platform. We never were in the oil sector. The platform was called Oil & Gas predominantly because of the big position that we had in the Australian LNG market. But now we've dropped oil & gas and refer to energy, which still includes LNG but it's a broader definition than what we had before. Resources is really the metals and minerals space in Australia. Here we are not in conflict with what we are doing in the mining platform. It is also in the metals and minerals space, but in Energy, Resources & Infrastructure it is predominantly surface infrastructure on large mines. And then also infrastructure is essentially transport infrastructure.

Underground Mining has changed to the Mining platform. You need to read into this name that we are no longer purely focused on underground mining. We've established a leading position in all our geographic markets where we are operating as an underground mining contractor, and further growth will be very hard in the market given the leading position that we've already established. So we've decided to spread our wings and to include open pit mining as part of our target market and we've dropped the 'underground' from our name. And it is purely now the Mining platform and we are extending our services to open pit mining as well. Power, Industrial & Water, with Medupi and Kusile coming to an end, which was really the core activity in this platform for many years, we have broadened the market focus to include 'industrial'. And the new name is Power, Industrial & Water. So we think by having changed these names the market will have a better appreciation of where Murray & Roberts intends to undertake its project work.

If I start on the numbers side by looking at the salient features for the past financial year, our revenue was marginally up to R20.8 billion, marginally up on last year, but we have reported a loss and it is a substantial loss, at attributable level R352 million. But Daniël will unpack that a bit more when he gets into the financial detail. At this stage I'd like to emphasise that the profit for this year was really impacted by a number of items. First of all COVID, a R622 million impact on our earnings before interest and tax. About a third of that R622 million relates to our investment that we have in the Bombela Concession Company. As you know we're a 50% shareholder in that concession, and that is the concession that operates the Gautrain in South Africa. Due to COVID the ridership has declined significantly and it has declined to below the threshold level above which the government subsidy applies. So as long as ridership is below that threshold that shortfall is really impacting the value of the investment in the Bombela Concession Company and we are currently in that scenario where the ridership levels are not meeting that threshold where the government subsidy kicks in. And for that reason we have to take a knock on our investment in the Bombela Concession Company, and as I said it's about a third of the R622 million.

The balance of the R622 million is profit impact on our projects. It has got two components to it. First of all, as we were not able to progress the work due to the lockdown restrictions and the regulations that were imposed and the travel restrictions we lost the profit that was planned to be earned during that period that we couldn't progress our works. But over and above that we have also incurred cost to hold on to the resources and the cost of the assets that we had on these projects. By and large our clients have agreed to extend the completion dates of our projects, so an extension of time was granted. But it was a rare exception where clients were prepared to contribute towards the cost, the holding cost that we've incurred during the time that we could not progress the works. And that is where this impact of R622 million comes from.

You will recall that we've sold a few years back a company called Genrec, a company that we've sold in the South African market. And on that business there was an outstanding vendor loan of R80 million. Unfortunately that business has gone into business rescue and as a consequence of that we had to impair the vendor loan. That also had an impact on our profitability. Because of the COVID market uncertainty we were not able to support the goodwill that we were carrying on two companies within the group and there is a goodwill impairment of R63 million that has gone through the books. And then we reassessed the recoverability on one of our claims and we decided to impair R46 million of the uncertified revenue. Now, all of these items coming together at the same time created the perfect storm for us, and that has resulted in the loss that we've reported for the year.

The Mining platform has done remarkably well notwithstanding the COVID impact. However, Energy, Resources & Infrastructure and Power, Industrial & Water both reported a loss for the financial year to June 2020. I think the highlight of this result is the order book and the balance sheet position. The order book is at R54.2 billion and we haven't seen an order book this high in Murray & Roberts for the past 15 years. And we are proud and confident that that R54.2 billion is a quality order book. If it wasn't for the decision a few years ago to broaden the market focus to include other markets into our definition of target markets it would not have been possible for us to build the order book to R54.2 billion. So we are very proud of that achievement. Cash net of debt is R700 million. That is down on what it was last year, but it is more or less on par with where we were at the end of December last year at the half year stage. That is before the IFRS 16 adjustment. If you were to do that adjustment we end up with a net debt position of R0.1 billion, but Daniël will unpack that as well in the financial part of the presentation.

Notwithstanding the fact that we have a strong order book and that we've got a robust balance sheet, the board has decided due to the uncertainty that is still in the market not to declare a dividend for the past financial year, and the focus is to preserve the company's financial position. From a safety point of view we are very pleased with the fact that for two consecutive financial years we have not had any fatal injuries in the group, and we're thankful for that. The lost-time injury frequency rate, although it has deteriorated marginally from 0.71 to 0.88, is still a very good rate by any means. That's then the salient features for the financial year.

Just a bit more about each of these platforms. Energy, Resources & Infrastructure as you can see is a global business. It now comprises three regional businesses, one in the Australia-Pacific region, APAC, then for EMEA operating out of Scotland, and then in North America another regional business. There are three regional businesses, a similar model to what we've adopted in the Mining platform several years ago. The platform is headquartered in Perth. That's where the platform leadership is based. And what we have also done in the past year is the investments that we had in the US in Canada, in America with CH-IV, and also the recent acquisition of the EPC division of Saulsbury, we have consolidated that now under the Clough USA brand.

Market focus, our global focus in this platform is the energy sector, but in Australia specifically we also include transport infrastructure and resources. The COVID impact in the past year on this platform was R179 million. From a market perspective point of view the energy market we believe in the US is buoyant, but having said that currently there is uncertainty in the market. But in the medium to long term we are confident that the market will bounce back and that there will be strong demand for our services. In Australia transport infrastructure has been identified by the Australian government as a sector that they are going to use to accelerate economic growth post COVID, and there is a lot of investment that is being accelerated in Australia in transport infrastructure, and we are well positioned for a number of opportunities that have been identified. And then as far as the resources sector is concerned there is still a lot of investment happening in Australia which is presenting opportunity to this platform.

The order book at the end of June was R34.4 billion. That is a record order book not only for this platform but for the Clough group even prior to the time that it was acquired by Murray & Roberts. So it's a very good position that we're in. And if it was not for the decision to broaden our market focus this platform would have been nowhere today, because in that R34.4 billion is very little, if any, projects associated with the LNG market. So essentially what we've done is to broaden the market focus, and through that decision we were able to establish and to grow an order book of R34.4 billion.

The platform prospects, I think it's fair to say that the order book position has put us in a position where we can expect this business to return to profitability in the new financial year and in the short to medium term to start making a meaningful contribution once again to group income. As I've mentioned, the transport infrastructure in Australia is a sector that is booming and there is still major investment happening in Australia by the mining majors. The pipeline of R66.4 billion is for category one. The definition for category one is tenders that we are currently working on, tenders that will be submitted. R66.4 billion. So all in all I think this platform is in a much better position relative to where it was a year ago or even two years ago. And we're pleased with the progress that we've made during this time.

The Mining platform is also global. It operates in three regions through three regional businesses, one in the APAC region operating out of Perth. The platform headquartered in South Africa, and this company in South Africa is focussed on Sub-Saharan Africa. And then in the Americas we operate out of Salt Lake City in Utah with quite a strong business in the Americas as well. Market focus I think is important to note that this focus now includes open pit mining services, not purely an underground miner anymore. It does include open pit mining services. Market conditions, the COVID impact was just more than R200 million. It is a substantial impact. Having said that if you look at the capital investment that is still occurring in the mining sector we think it held up nicely, predominantly still in the brownfields expansion area.

But we're very pleased with where we are in this Mining platform notwithstanding the fact that the order book has come back a little bit down to R19.4 billion. It's not much down on what it was at this stage last year. We are not overly concerned because of the order book position. Yes, there is pressure in all the markets, but having said that if you look at the near orders which we will get to a bit later, and also the category one prospects, there is enough opportunity in the markets for us to maintain a very high level of performance through this platform. As I mentioned our leading position in underground mining across the globe everywhere that we work, we're really maintaining that position. We are very pleased about that, but we are now moving into the open pit mining space. Having said that, for us to do that in a meaningful way we will have to consider acquisitions and we do have a few options that we are looking at at this point in time. That is really the only way to establish a meaningful presence in open pit mining services, and that is on the cards.

TNT, the business that we acquired last year, is operating out of Santee in California. This is a business that provides material logistical services. And at this stage it is predominantly providing clients in the American market and a little bit into South America as well. And what is important for us is to make sure that we get this service offering and that we extend it into the Sub-Saharan Africa region and into the APAC region where the rest of the mining business has got a good position. The pipeline is R45.1 billion – again that's category one – and it is a significant pipeline for this business.

Power, Industrial & Water is not a global business. It is focussed on Sub-Saharan Africa and it is based here in Johannesburg. It operates out of Johannesburg. And this is a business that has over time delivered quite a large scope of work on the Medupi and Kusile power stations. But that has now come to an end and we have to expand our market focus slightly. The impact of COVID on this platform was R43 million and you will note in Daniël's slide a bit later on that the platform recorded a loss. That loss is essentially the COVID impact that we've experienced in the year.

Unfortunately there is limited investment happening in South Africa as we speak, so we do expect that there will be a little bit of a dry season maybe for the next six to 12 months due to a lack of project opportunity for this business. And that is reflected in the order book. The order book declined to R0.4 billion, and when you compare that with the order book of the other two platforms it's really just a drop in the ocean. I've been asked by many shareholders and analysts whether there is any strategic rationale why we are still proceeding with this platform. And my standard answer is we will hold on to this business for as long as it doesn't cost us money purely because of the opportunity that we believe does exist in South Africa if we can get to a point that there is investment happening in the water sector. We know the state of the water infrastructure in South Africa. And there is billions of investment required in this sector to address this problem, and we are ideally suited through this Power, Industrial & Water platform to provide those services. So we are holding on to this business and waiting for that opportunity.

In the power sector there is still investment that needs to happen in quite a big way to sort out our power problems in South Africa. And for that reason we're holding on to this platform. In the short to medium term the only real opportunity that we see is in overland transmission and distribution. I think you will recall in the past year we have acquired a company called OptiPower, and this is the company that is providing this type of services. There is quite a big value of work that is out on tender for Eskom and hasn't been adjudicated yet. But we believe we are well positioned to secure a sizeable portion of that work, but the larger opportunity is really the LNG development in Mozambique. As you know those developments have commenced, but the work that we are positioning ourselves for us not going to impact our business before FY2022. Pipeline opportunities are R9.8 billion. Again that is category one. And compared to the other two platforms you will see it is significantly less, but we are hopeful that the decision by the South African government to invest in infrastructure as a means of reigniting the South African economy will materialise and that will present opportunity for Power, Industrial & Water.

The order book in a bit more detail, when you look at this slide you can clearly see the difference in value of the order books between Energy, Resources & Infrastructure and Mining, and Power, Industrial & Water. So the growth in the order book is predominantly in the Energy, Resources & Infrastructure sector, and that value is largely driven by the Snowy project, which is a hydroelectric scheme in Australia, and then also the Next Wave project that we've secured in the USA. But there is a strong pipeline for that platform, and as I said there is a high expectation that that business will start making a meaningful contribution again to group profit as it has done a couple of years back. The Mining business a marginal decline in the order book, but as I said there is a strong pipeline and we're not overly concerned about the drop to June 2020.

This is an interesting slide. There is a lot of information, but in the first column under the heading 'order book' you essentially see the split in the value of the order book that's in the international market and in the SADC region. 24% is in the SADC region of that R54 billion and 76% is in the international market. And the SADC portion is predominantly made up of 66% in the Mining platform order book as of June 2020. On the right-hand side there is a column that gives you the time distribution of this order book. And further down you will see 2021, 2022 and beyond financial year 2022. So that R54 billion is spread over time with R16.6 billion to be delivered in this current financial year to June 2021, R12.9 billion already secured for the financial year to June 2022, and then beyond that there is R24.7 billion. It's quite a nice position to be in because it gives you a feel for the time distribution that we have. And it is a better position that we have compared to the previous two financial years. If you look at June 2018 what the distribution of that order book was, and if you look at June

2019 what it was, you will realise that we are currently in a stronger position compared to where we were in June 2018 or June 2019.

Just a bit more detail about the order book and the pipeline. The order book at R54.2 billion is not part of the pipeline because that work has already been secured. Orders have been signed. It is in the order book and we are executing those projects. And now post COVID-19 most of our operations have resumed again. There are only two projects that are still on hold, one in Canada and one in Mongolia. But we are working down this order book and we are implementing works in all the geographic regions where we are working. In the pipeline the first category is near orders. Near orders refer to projects which have been awarded to the company subject to financial and commercial close between ourselves and the client. So there is R11.4 billion as at the end of June 2020. We are in a process of closing these out commercially and once the agreement is signed that value will move into the order book.

Category one, R121.3 billion. As I mentioned earlier on, the definition for category one represents tenders that we are currently working on, projects that are in the market where a client has asked for tenders and where we are competing in the market to win this work. But what is of significance is that in that R121 billion there are four projects with a combined value of R40 billion where we've been asked by clients to develop those projects for them. So we are not tendering in the open market in competition with other companies. This work has essentially been allocated by the clients to the Murray & Roberts group and they want us to execute the projects or develop those projects for them. But those projects have not reached the final investment decision point yet, so we are working with the client in that regard and we are hopeful that by the end of December, the first six months of this new financial year, that at least half of that R40 billion which we are negotiating would have worked its way into the order book.

I mentioned there are four projects. One is in the Mining platform and three of them in Energy, Resources & Infrastructure. So all in all notwithstanding the fact that there's market uncertainty – and no one can deny that. There is market uncertainty – the fact that we have the R54 billion order book and the fact that we have such a good position in near orders and category one pipeline gives us a lot of confidence moving into the new financial year. So with that I would like to hand over to Daniël Grobler who will talk to you in a bit more detail about the financials. Thanks Daniël.

Daniël Grobler

Thank you Henry. Henry has given me the interesting challenge to talk to you about very difficult financial results and do it as best I can. So I always accept the challenge, but what I've done is I've come up with a hack to assist me in this process. The first piece of advice was to wear this bright yellow tie. The audience will then have to make up for themselves to either look at the tie or the information. That effect I'm told holds about ten minutes. So the first ten minutes I'm going to run through the earnings and income statement, and then spend a lot of time on the balance sheet, which is where the real strength of the company lies.

If we start with the income statement, Henry made a brief comment that revenue has increased compared to prior year, but on almost all the other metrics we're down. On EBITDA we're down. On EBIT we're down. I will unpack that in a little bit more detail. Net interest expense increased incrementally compared to the prior year. Tax is very difficult to give you an exact answer because we are in a loss this year versus next year. Discontinued operations we've made a profit and I will unpack that in a bit more detail later on. But ultimately we made an attributable loss versus an attributable profit in the prior year. I know both myself and Henry hate losing. We were seeing whether or not we could hold a profit figure for this current year, but that was just not possible.

If we go on to the current year results what we've seen is continuing EBIT shows a loss of R17 million. So what we did was we took a step back and we said, what were the once-off items that really mess up our results in the current year? Henry mentioned the COVID impact of R622 million, and we've given you a breakdown per platform. I will talk to that a bit later on. We had goodwill impairments in two of our entities. One was in Power & Water and one was in the ERI platform. And then we had uncertified revenue impairments. So, on the uncertified revenue impairments we started negotiating with the clients. We got more information from the clients and we realised that elements of our claim weren't that strong, so under IFRS 15 rules you have to impair that amount that you're not certain about. If you take the complete picture and you take a step back, instead of a loss of R17 million we could have ended up with a normalised continuing EBIT profit of R714 million.

If you look at interest expense I've had a lot of questions as to why the interest expense went up from R56 million to R221 million in the current year. IFRS 16 – and I've explained that in a lot of detail in the previous two presentations; I'm not going to spend too much time on that – contributed R65 million of that. In this prior financial year we acquired an additional 17% shares in the Bombela Concession Company for R13 million and we acquired TNT which added R15 million to the additional interest charge. Then there is a line item that says working capital, and working capital has got two elements. So we've got working capital sitting in the South African operations and we've got two working capital loans sitting in Mongolia. Now, the Mongolia working capital facility attracts interest at 15%, which is significantly high. We are aiming to have those loans repaid by the end of September, and hopefully of that R72 million, R30 million that relates to Mongolia will come down significantly in the new financial year.

If we move over to segmental reporting, Energy, Resources & Industrial, I argued long with Ed that we should start with the worst and the answer was yes. They made a total loss of R454 million, and there are reasons for those losses. If we look at the three elements that are operating, in engineering and construction we can see an increase in revenue. But they still reflected a loss of R322 million. That loss has got three elements to it. One is the COVID loss across all the working businesses of R172 million, but specifically on this engineering and construction sector they made two losses on two projects. Now, on the biggest project where they made a loss of R134 million they've taken zero uncertified revenue. That doesn't mean that we've got no entitlement. It just means that under IFRS 15 we haven't met the high probable threshold that we're going to get back the money, and hence we're allowed to take zero uncertified revenue there. So I believe with COVID restarting, with the likes of Snowy Hydro as well as the Next Wave project that sector is going to pick up significantly and we should start seeing a profit coming through in the new financial year.

Global Marine we can see has got an order book of R443 million and only revenue earned of R33 million. That's the LNG project in Canada that Henry referred to that is still on hold due to COVID. And we are hoping that in the next financial year we can gain some traction on that. Commissioning & Maintenance we see shows a very healthy margin in the current year. We've closed out the Ichthys project. We had a number of risk contingencies which we carried on this project and we managed to leave once final negotiations have been done and concluded. If we look at corporate in the current financial year they took a bit of a different financial model where they took tendering costs which were quite significant and they allocated those to Global Marine, Engineering & Construction, and Commissioning. That reduced the corporate overhead cost significantly. However, that was offset by the additional goodwill impaired on one of their entities within the group. As Henry mentioned, the highlight of this slide is the order book that ended up with R34.461 billion. Hopefully in the current year we've accounted for all the known project losses. That's a quality order book with some quality projects in it and significant upside based on the category one transactions sitting in that platform.

Mining we said delivered a good performance. It has got three elements in it, and I would say Africa and the Americas did deliver a good performance. In Africa we can see a slight increase in turnover and the operating margin remains at 8%. The order book dipped slightly, but all in all a very good performance. The COVID impact on Africa is about R55 million, so despite the COVID impact they still managed to increase the prior year profit number. Australia, I was very disappointed in the result coming out of Australia. They had a COVID impact of R102 million. However, they lost money on a contract called Mount Dacian. That contract has come to an end. There were many lessons learnt on that contract which will be carried forward into new contracts that they are bidding for. They also had a number of raised boring jobs. Those jobs are typically at very high margins and those jobs came in at very low margins. So Australia has got the ability to easily make a margin of 8% or 7%, R250 million on R3 billion of profit. And we need them to repeat that in the next financial year. I think all the bad elements are out of that platform and hopefully we see them turning in the new financial year.

The Americas we can see an increase in both turnover as well as in profit. We well know that that includes the addition of TNT, and TNT performed well under the current year. They still operate at a very good margin of 8% versus prior year margin of 7%. The only concern I've got with the US business is that the order book went down from R5.6 billion to R3.5 billion, but they do have a strong pipeline of opportunities that they're working on. So overall for the Mining business it was a good performance, but it could have been better had we had a better performance in Australia.

If I move over to PIW, in the power section it appears that we've got a good result. We've shown 16% operating margin. We won a significant award against Mitsubishi Hitachi which boosted profits in that element. Water shows a loss of R62 million, and that loss is mainly attributable to some of the goodwill write-downs that we spoke about earlier. Transmission and distribution is the new OptiPower that we acquired. We can see they are making a 7% profit, so a good profit on those jobs. As Henry mentioned, they've got about R2.5 billion of work under tender with Eskom. There is not a lot of place in this market, but there is significant potential upside for this element within the Power, Industrial & Water platform to move forward.

What we see under 'other' are projects like Sappi and Polokwane and some smaller projects, and we see a small loss there of R55 million. It just so happens that the loss on one of the projects was about R65 million, but the COVID impact there was R30 million. So it has been a very difficult environment in the past 12 months to operate in. Henry mentioned many reasons of keeping this platform going forward. In the current year they've got an order book of R0.4 billion. They've lost R44 million of which about R40 million was due to COVID. So in these circumstances we're just waiting for the upside in the market in order to move forward.

If we move to the Bombela investment, we own 50% investment in the Bombela Concession Company. As you know with COVID the ridership took a significant dip. Henry already explained that to you. We were forced to re-budget over the next 234 months onwards to see what the impact of COVID is going to be. So it's very difficult to say that on stage 4 there are going to be 2,000 passengers. When are they going to open up the airport link? There are some judgement calls that went into the forecasting of BCC. But despite this re-forecasting we still took a COVID impact on our 50% share of R97 million on this project, which is significant. And going forward this project is a contributor to dividends as well for the group, and we have a significant insurance claim in, but once the insurance claim starts kicking in we can start generating some further dividends on this.

I've got a slide on discontinued operations. Middle East is showing a profit of R120 million and it's a first profit in a very long time and probably a last profit that we'll see in the Middle East. It is generated from a foreign exchange difference on an intercompany loan that they've got. And it's enough to offset any operational costs and legal costs that they've incurred in the Middle East. And under 'other' we've got an operating loss of R101 million. That includes the loss on Genrec of R80 million and all in all we made a small profit of R19 million on discontinued operations in the current year. Those were the ten minutes. You can look away from my tie and look at the balance sheet.

If I start with property, plant and equipment that balance increased by R1.1 billion. So what was that increase made of? There was capex and depreciation. Those almost offset each other. But with the new IFRS 16 we had to bring onto balance sheet R0.6 billion worth of right-to-use asset onto my balance sheet. In addition to that we had foreign exchange gains on this balance sheet of R400 million. So if at the start of last year I bought a machine for $100 it was worth R1,000, and year later that $100 is worth R1,200. An incremental R200 is shown as part of this foreign exchange benefit. The next line item that I would like to highlight is current assets. Current assets went up by R1.2 billion. And the R1.2 billion is mainly debtors that we've been working with a number of them. Some of the debtors we're on payment plans. Especially in the US on the debtors we've got [unclear]. Some of the debtors we have initiated legal action but we have got performance bond. We are actually engaged, but to date we've taken zero write-downs in terms of bad debt in terms of the group debtors.

What you will see from cash, cash as of June 2019 was at R3.455 billion. In the current year it's R3.415 billion, so we managed to maintain quite a strong cash balance. If I move a few slides down to the short-term lending, short-term lending increased by about R1.9 billion in the current year. Of the R1.9 billion increase again under IFRS 16 R0.9 billion of that reflected to IFRS 16. It's just one of those things that you have to bring onto balance sheet. However, the overdraft increased by another R1.1 billion. I've mentioned a number of initiatives we're currently busy with our debtors and that overdraft facility should be making its way down during the course of the next financial year. But overall we're sitting with a net cash position of R747 million. Henry mentioned that as at December that was R758 million, so really moving through the COVID period with all the challenges and being line ball with where we were in December I think is a really good outcome for the group.

I've got one slide left, and that just puts debt for the group into perspective. Again I've divided that into self-servicing debt, corporate debt and IFRS 16. Self-servicing debt I'm not going to spend too much time on. Those are project-specific debts which are doused and extinguished by those projects. Corporate debt is made up of two elements. One is the TNT acquisition. The other one is the overdraft and loan facilities. TNT is sitting at R311 million. The overdraft is sitting at R1.2 billion. That's the one that the market focusses on and that's the one that I focus on and try and keep as little as possible. And the IFRS debt is very close to R900 million. When you calculate your gearing ratio the ratio that we really track is the gearing ratio for the corporate debt. And that is sitting at 27%. I'm still comfortable with that level. I know that's hugely dependent on the corporate overdraft facility, and the quicker we get that, the quicker that goes down. If I include self-servicing debt, that goes up to 47%. Again I'm not too concerned if that figure goes to 55% because we've secured contracts. Those contracts will service their own debt and generate a profit, so that type of increase does not concern me. Henry, then all the challenging things has been dealt with and it's time to hand over back to you.

Henry Laas

Thank you Daniël. I just want to remind those of you on the call and on the web to please log your questions so that at the end of the presentation we can attend to that. Thank you very much. The focus area for FY2021. The order book growth is important for us. For our type of business, being an engineering and construction group, your order book is a leading indicator of the potential of this business into the future. Given the market uncertainty that we are still living under, as I said we already have R54 billion of order book, but we have to make sure that all the near orders find their way into the order book and at least R40 billion of that category one pipeline of R121 billion we can get into the order book before June 2021. So a real focus on growing this order book. We've got good opportunities that are well advanced in an uncertain market and those opportunities that are well advanced we have to make sure that we land them and that we include them in the order book.

Project execution is really an area that I think we could have done better in the past with, and we have to improve on that into the new year going forward. Where we have had challenges it's not a function that the quality was not in the order book. It was more a function of issues that happened during the execution phase of the project, and that is where we need to lift our game. Reduce working capital or improve the liquidity is another area that we will focus on, notwithstanding the fact that we have a robust financial position. There are debtors which are paying us on a payment plan. And especially in South Africa unfortunately we have a few debtors which are very slow in paying. That we need to focus on and sort out in the new financial year.

Digitalisation is something not only of the future but the present already, and it is an area that we need to focus on. We've done some good work in the past financial year with the support of the Boston Consulting Group. We've put it on hold as we were distracted by COVID, but we need to get going again with that initiative. We've made fantastic progress in the Mining platform already and there are areas where we've already achieved a lot in the other two platforms, but we need to have a structured and well-organised approach to digitalisation and that is something we will focus on in this new year.

And then we have the exit of the Middle East. We've been trying our best for so long to get out of that region. We have now completed all the projects as you know. We don't have any construction activity ongoing in that market. But it is now about closing out all the financials, and that is a major task. In the Middle East you fight tooth and nail for every cent. It is a difficult process but I think we are well in control of what we're doing there. Our Commercial Director, Ian Henstock, is actively involved in all the initiatives that we have going in the Middle East to successfully close out our commercial positions. But having said that, I don't want to create any concerns with anybody that there is potential bad news coming out of the Middle East. We are confident that the accounting position that we have adopted in the Middle East has been a prudent position and that we should be able to close it out within those positions that we've adopted. So these are then the focus areas for the new financial year.

Just presentation take-aways. If I look at Murray & Roberts as a group I think we are a stable base from which we can grow. The idea to broaden the market focus and to mitigate the cyclicality of natural resources I think was the right decision for the group. It has enabled us to establish this order book that we've been referring to. If it wasn't for the broader market focus we would not have been sitting with a R54 billion order book, so that was good. I think the cash position is also good to know that we have a robust cash position in the group. There is lots of headroom in our facilities, a lot of unutilised credit facilities of R2.8 billion. I had a conversation with one of the CEOs of the local banks a couple of weeks back, and he said to me what they experienced as we moved into COVID in March of this year was a lot of the companies were drawing down on their facilities. They wanted to get the cash into their businesses. We didn't do that. It wasn't necessary for us to draw down on our facilities. As you can see we still have headroom of R2.8 billion on our facilities.

The order book we've spoken a lot about, but it is a good presentation take-away. R54 billion with near orders of R11.4 billion. Ladies and gentlemen, then just a few comments on Energy, Resources & Infrastructure, Mining, and Power, Industrial & Water. I think the take-aways from all of that is on Energy, Resources & Infrastructure we really expect this business given its order book of R34 billion to be profitable in the new financial year and to become a meaningful contributor again to group earnings. In the Mining business I think the focus that has shifted to now include open pit mining services is an important take-away from this presentation. And then finally, from a group perspective we have a strong order book, a robust financial position, sufficient funds to fund our growth plans, a return to profitability in 2021, and then earnings growth beyond. Ladies and gentlemen, that brings me to the end of the presentation. I see from Ed that there are a couple of questions that have been logged, so let's attend to those. Thank you, Ed.

Ed Jardim

Thank you Henry. Just a couple of questions, a few on the webcast and we've got two on the call. So perhaps let's start with the call first. Danae, are we ready to take questions on the call?

Operator

Of course sir. The first question we have is from Tumelo Modiba from Reuters News. Tumelo, you can go ahead.

Tumelo Modiba

Hello. How are you?

Henry Laas

Hello.

Tumelo Modiba

I am just wanting to know, do you expect construction to pick up [inaudible segment] oil & gas market?

Henry Laas

My apologies. I couldn't her you question. Could you repeat please?

Tumelo Modiba

All right. I would like to know, do you expect construction to pick up or have you seen a pick-up in the oil & gas?

Henry Laas

I am still not able to follow your question. The sound is distorted. Can we ask the people that manage the sound for us to take your question and maybe just bring your question through to us?

Ed Jardim

Sorry, Tumelo, the line is quite bad. I think if we can perhaps move on to the next question, Danae, and perhaps see if we can help Tumelo with the question in the meantime.

Operator

Of course sir. The next question is from [unclear] from Visio Capital Partners.

Henry Laas

Yes. Please ask the question.

Operator

It seems that [unclear] line is silent at the moment. The next question is from Roy Cokayne from Moneyweb.

Roy Cokayne

Hi Henry. Can you hear me?

Henry Laas

Yes Roy.

Roy Cokayne

Just a question related to the Bombela Concession Company performance and the impact on continuing EBIT for R194 million. In my engagement with the Gauteng Management Agency they informed me that Bombela lost about R171 million in revenue. Can you explain the difference between the revenue and continuing EBIT impact from COVID-19? And can you comment on the future prospects for this investment particularly in light of the possibility of Bombela incurring future losses because of a permanent change in the way people work which will negatively impact ridership levels?

Henry Laas

Thank you Roy. I can't comment on how to reconcile the information that you got from the GMA from what we've been disclosing this morning. What we did from our end, we had to make certain assumptions and forecast what the ridership is going to be over the next year or so and really up to the end of the concession period. And the way in which the financial model works there is a threshold and ridership needs to reach that threshold. And once you get to that threshold only at that stage the performance guarantee or the patronage guarantee from government starts to kick in. Below the threshold if ridership does not reach that threshold level the delta between the threshold level and the actual, that impact is for the concessionaire's cost. And we haven't had that in the past, but with COVID we found that the ridership has dropped below that threshold. Before COVID we had about 55,000 passengers per day. Currently we're doing about 7,000 passengers per day. And we forecast how we expect this ridership to increase over time and by when it will reach that threshold level again. And the impact of that delta between the actual ridership and the threshold ridership, that impact we had to take into consideration in doing the discounted cash flow valuation on the Bombela concession. And that impact had to be accounted for 100% in the current financial year. To us I think the number is R197 million.

Daniël Grobler

R197 million. Just maybe the difference between accounting, so what they do is they count on normal profit and loss, and their profit and loss will never match our figures. What we get from them is forecasted dividend streams, and those dividend streams are then discounted at a rate to give us a fair value adjustment. So there is never going to be a direct link between their income statement that they record and whatever fair value adjustment that we record on our site.

Henry Laas

Roy, I hope that answers the question. But if not you're welcome after the call to spend some time with Daniël.

Roy Cokayne

That's fine, that part. Just with the future prospects and the permanent change in the way people work negatively impacting on ridership levels and possibly the threshold.

Henry Laas

I can't disclose that detail other than to say that we expect that by June of next year we should be approaching ridership levels again. That will be at the level of the threshold. So for the entire next 12 month period to June 2021 in our model we've assumed that we will be below the threshold level.

Roy Cokayne

Okay. Thank you.

Ed Jardim

Thank you Roy. I think let's move on to the webcast questions. We've got a few here. The first one would be can you please clarify whether you intend to operate the open cast mining fleet or just perform the services to this segment?

Henry Laas

What we intend to do is to operate open pit mines. So what we have said over time is that we would like to get to a point that at least 50% of our earnings in the Mining platform should come from contract mining type of activities. Now, currently we've got contract mining activities underground, but in the open pit mining sector if you operate the mine it is also of a contract mining type nature. So that is what we will be doing. And as far as the fleet is concerned there are various models that you can apply. You can bring partners in that will come in as far as providing the fleet is concerned. You can procure it yourself. So there are various models how we can do that.

But to answer your question, our intention is to operate open pit mines, and to produce as we produce from underground mines, and to run those mines on behalf of clients. I can tell you that in South Africa we've been approached probably six months ago by a developer of a prospect who came to us and asked us to actually develop the open pit mine for them. We said to them that's not part of our service offering and they accepted that, but they encouraged us to actually engage with them and to establish that. And we've put a joint venture together and we are pursuing that opportunity. But having said that, the commercial terms under which we will do that obviously will be such that we are protected from a risk point of view. And we will make sure that we will earn a decent return on the investment if that opportunity is to proceed.

Ed Jardim

Let's stay on open pit mining, a similar question as to why we see it as an attractive opportunity. What opportunity in terms of commodities or geographies do you see, and is it possible to build this service organically?

Henry Laas

Yes. If we enter open pit mining the initial focus is going to be to do in Sub-Saharan Africa. It is not something that we would want to do at this stage beyond Sub-Saharan Africa, so it will be let's call it in our local market. That's the one part of the question. What was the other part of the question, Ed?

Ed Jardim

Is it possible to build the service organically?

Henry Laas

I think potentially you could, but it's going to take you a very long time to grow that business to be a meaningful contributor to earnings. As I said in the presentation, we've reached a point that it's difficult for us to really grow the Mining platform organically as long as we stay purely in underground mining given the leading position that we've already established in all the markets where we provide our services. So for us to make a step change we have to expand the service offering and for that reason we want to include open pit mining services. The way to do that for us is to do an acquisition, without which its' going to take us a long time to really establish a meaningful position in open pit mining.

Ed Jardim

Thanks Henry. Next question. What seller warrantees exist on the problematic contract in the US, and do you expect losses to be recovered?

Henry Laas

When we acquired the business in the US there was one project that was under execution. And part of our due diligence included a due diligence on that project. And a certain view was taken at the time of the due diligence of what the scenario was on that project. And certain warrantees were provided by the client specifically around the project. So the warrantees essentially were there to cover potential losses, and unfortunately the losses that we have incurred at the end were greater than the warrantees that were provided. That was quite by a big margin. I guess one could possibly say that was something that was not picked up in the due diligence, a shortcoming. But yes, that project is now completed. We have handed over. Our claim was not sufficiently advanced at year end so that we could get comfort on the prospects of recovery of that claim, but as Daniël has outlined that certainly is something we are pursuing and we do expect some level of success on our claim which has not been recognised as uncertified revenue.

Ed Jardim
Two questions on uncertified revenue. Can you please comment on the increase in uncertified revenues and possible future write-down risk? That's the first one.

Henry Laas
The uncertified revenue increased marginally. I think you're always going to have in a business such as our business uncertified revenues going up and down. We do a proper assessment every time we look at uncertified revenues on the recoverability of that before we account for it through the income statement. Sometimes we get it wrong, but most of the time we get it right. The impairment that we took in the current year relates to uncertified revenue that was recognised on a claim in prior periods and on the related information we just felt it was prudent to impair part of that uncertified revenue. That's why we've put the impairment through. But this is the first time that I can recall in a long time that we took an impairment on uncertified revenues. Previously we have always achieved at least the uncertified revenue amount.

Daniël Grobler
If I can make a comment there, the spot rate from prior year to this year increased by 23% to 25%. For international uncertified revenue that's definitely one of the reasons. As Henry said, we get legal experts to form a view and the auditors get their own legal experts to form a view as well.

Ed Jardim
Thank you Daniël. The next question on uncertified revenue. Do you believe that uncertified revenue impairment should be excluded from normalised earnings? If so, on what basis?

Henry Laas
Certainly. Look, what we try to do with the slide that Daniël presented to come to a normalised earnings position for the group is that impairment does not relate to trading, to the trading result of the current year. It relates to a trading result of the prior period where we took a position around the uncertified revenue. So yes, it is part of normal business, but that impairment does not belong in this year's result. It should have been taken in prior years if we had the knowledge back then that we have today on that claim.

Ed Jardim
Thank you Henry. Two questions on the same topic. Do you have any update on ATON or Red Path for the market?

Henry Laas
No. I think the market is fully up to speed with the fact that at the end of December last year ATON decided not to extend the long stop date of their offer, and as a consequence of that decision the offer failed. We have had one or two engagements with ATON, but these engagements are structured around the engagements that we have with all our shareholders, similar to the presentation today where we discuss results. So we don't have any view as to what ATON's intentions might be with their investment of about 44% in Murray & Roberts.

Ed Jardim

Then we're coming close to the end now. Just two questions on COVID impacts quickly. The first one is: are clients willing to adjust contracts to take into account the delays caused by the pandemic? And do you have business interruption insurance in place to recoup costs or has that already been taken into account and provisions raised?

Henry Laas

This COVID scenario is really a force majeure scenario which emerged on our projects. And the way in which clients have responded to them they have given us extension of time. And normally you would have penalty clauses. If you complete the project after the date that you've committed to complete the project penalties would apply. But because of COVID there was relief by the clients. They have extended the completion date so that the penalties would not apply to the original completion date but only to the extended completion date. And that extension of time takes into consideration the delay caused by the COVID impact. However, from a cost point of view we incurred significant cost in holding on to resources and also because of assets that were idle during the time that we could not progress the works, and that cost is for us, by exception clients who were prepared to contribute towards part of that cost. And all of that has been taken into consideration when we calculated this number of R622 million as the result for the year.

As far as business interruption is concerned it's a difficult topic at this stage. Many of the insurance companies are resisting to admit liability on business disruption and there are numerous court cases playing out at this moment in time. But we do have business interruption insurance as far as the investment in the Bombela Concession Company is concerned and we have taken some view on the recoverability or the success of a business interruption claim as far as the investment in Bombela is concerned. And all of that was taken into consideration at arriving at that adjustment of R197 million that was made in the past financial year.

Ed Jardim

The second last question. Have supply chains recovered to mobilise on new projects? Impact of travel constraints on projects.

Henry Laas

Yes. I think the supply chains by and large have recovered. The project in Canada which is still on stop is because of supply chain issues. It's not on stop because of site-specific COVID conditions. It is on stop because the supply chain – I think it was a supply chain out of Thailand – is just not in the position to meet our requirements. And we're currently looking at moving that away from Thailand into other areas. That's the reason that project is still on stop. Travel restrictions are a major issue. The project that is on stop in Mongolia when the hard lockdowns happened the people that were on the job most of them are still on the job, and the people that were on rotation are still not back in Mongolia.

If you rotate into Mongolia now it's going to take you five weeks from arriving in Mongolia before you can start work on site. Three weeks is the quarantine period that is determined by the Mongolian government, and then when you get to the project site there's an additional two weeks. But there are no international flights in and out of Mongolia at this stage. We spoke to our people in Australia who are responsible for that project earlier this week where they said that a flight is being prepared out of Perth in the next week or so essentially to take people into Mongolia for this project, not only our people but also other people that project. So as we speak travel restrictions do still apply. Even in Australia we can't fly into Western Australia or out of Western Australia. So that is limiting, but the people that we have on the ground and on the projects are still performing their tasks. The only difficulty we have is we can't let them work on the normal rotation rosters that applied prior to COVID-19. So the people that are on the job remain on the job unless we can rotate them with people that don't have to cross borders.

Ed Jardim

Thanks Henry. Final question on Bombela and assumptions around the Bombela write-down. For example, have you seen normal ridership or volumes end of this year or another year of depressed volumes, or did you actually inject working capital into Bombela during this period?

Henry Laas

From a ridership point of view we did not calculate when normal ridership would proceed again. Because of the way the contract is structured at a certain level the patronage guarantee starts to kick in and then there is protection through the patronage guarantee. So what we had to consider was when the ridership would reach the point of that threshold for the patronage guarantee to kick in. So it is not getting back at the normal ridership levels. It is only getting to the point where we achieve that threshold. And in our assumptions and the way we've modelled our budget and the forecast we were getting to that ridership threshold level in June of next year. So the entire 2021 financial year is based on the assumption that we would not get to the ridership threshold where the patronage guarantee would start to apply.

Daniël Grobler

There is no working capital to be injected.

Henry Laas

Just to emphasise again what Daniël explained earlier on, the way we account for the Bombela Concession Company is it's an investment for us. It's 50%. And what we do is we take the forecast of the future dividend stream out of that business and we discount that back to the present value, and that's how we account for the returns on that investment, which is different to the way the business would account for its normal profit and loss every month.

Ed Jardim

Thank you Henry. Thank you Daniël. Once again apologies to Tumelo from Reuters for not receiving your question. I'll get in touch with you and see if I can answer that question for you. Any other questions that have come in subsequent I will take offline. Any other questions that you'd like to send through you can do so. My contact details are under the investor section on the Murray & Roberts website. So with that I think we can conclude the questioning. Thank you Daniël. Thank you Henry.

Henry Laas

Thank you Ed. Thank you Daniël. Ladies and gentlemen, thank you very much. We appreciate your participation in this call. Thank you.

END OF TRANSCRIPT