

2015

State of the South African Civil Industry



2nd QUARTER 2015

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ECONOMIC BACKGROUND

Global growth remains moderate, as prospects are uneven across the various countries and regions

A few important issues are highlighted in terms of developments in the global economy that will impact on the domestic economy.

Global growth remains moderate, as prospects are uneven across the various countries and regions. Global growth is projected at 3.5 percent for 2015, in line with January 2015 forecasts. As noted in previous reports the outlook for advanced economies has improved while growth in emerging and developing economies is projected to be lower, primarily reflecting weaker prospects for some large emerging market economies and oil exporting countries. (Source IMF World Economic Outlook April 2015)

Growth in emerging markets are expected to slow somewhat in 2015 (from 4,4 percent in 2014 to 4,3 percent), growth in advanced economies is expected to accelerate from 1,8 percent to 2,4 percent in 2015. Growth in sub-saharan Africa remains strong but is expected to slow this year to 4,5 percent (from 5 percent in 2014), in the face of headwinds from declining commodity prices and the epidemic in Ebola-affected countries. The oil price decline will have a severe impact on the region's oil exporters, including Nigeria, with 2015 growth for those countries marked down to by more than 2,5 percentage points. The IMF expects SA's growth to rise to 2 percent in 2015, and 2,1 percent in 2016.

Oil prices have declined by 45 percent since September. A variety of factors have played a part: weaker than expected global activity, weaker demand for oil (given activity) and probably the most profound impact, greater supply. Supply factors include the steady rise in production of countries not belonging to OPEC, especially the United States.

Table 1: World Economic Outlook (Source: IMF)

	2012	2013	2014	2015	2016
World	3.1	3.0	3.3	3.5	3.7
US	2.2	1.9	2.4	3.6	3.3
Eurozone	-0.6	-0.4	0.8	1.2	1.4
UK	0.3	1.7	2.6	2.7	2.4
Emerging Markets		4.7	4.4	4.3	4.7
Brazil	0.9	2.3	0.1	0.3	1.5
Russia	3.60	1.5	0.6	-3.0	-1.0
India	3.2	4.4	5.8	6.3	6.5
China	7.8	7.7	7.4	6.8	6.3
Sub-Saharan Africa	4.9	5.1	4.8	4.9	5.2
SA	2.5	1.8	1.4	2.1	2.5

IMF World Economic Outlook April 2015

Domestic Economy

As expected, Stats SA released relatively poor data on the performance of the South African economy today. Real gross domestic product at market prices increased by 1,3 per cent quarter-on-quarter, seasonally adjusted and annualised, from 4,1 percent in the 4th quarter of 2014. The unadjusted real GDP at market prices increased by 2,1 per cent year-on-year, largely due to an improvement in mining and quarrying of 6,3 percent and a 6,2 percent increase in agriculture, forestry and fishing. The growth in mining and quarrying however comes off a low base due to the strike action that nearly crippled the platinum sector last year. Finance, real estate and business services increased by 2,7 per cent, the transport, storage and communication industry increased by 2,4 per cent; and the electricity, gas and water industry decreased by 0,3 per cent. Manufacturing increased by only 0,4 percent in the 1st quarter, at unadjusted rates, which when seasonally annualised represents a contraction of 2,4 percent. According to a news report on IOL, Eskom implemented 21 days of rolling blackouts in the first three months of 2015, which also resulted in the purchasing Manager's index (PMI) falling to its lowest level in 11 months in April.

Investment in Construction slowed to an annualised increase of 0.85 percent in the 1st quarter, from 3,5 percent in the previous quarter, which was an unadjusted increase of 1,9 percent. Compensation for employees in the construction industry increased by 5,7 percent in current prices, compared with an average increase of 7,7 percent across all sectors.

The domestic economy grew by an estimated 1,4 percent in 2014, from 1,8 percent in 2013, and is not expected to breach a growth rate of 2,0 percent in 2015. Economic conditions in the first quarter was relatively muted, as most

of the demand indicators (retail, motor vehicles, house prices and approvals for new construction), reported slower or even negative growth.

Table 2: Demand Side indicators

Indicator	Jan-15	Feb-15	Mar-15
Retail sales	1.9%	3.7%	2.0%
Vehicle Sales	0.4%	1.4%	1.2%
ABSA House prices	8.3%	7.3%	6.2%
Buildings completed	-13.4%	-4.5%	#N/A
Plans approved	-7.4%	-4.0%	#N/A

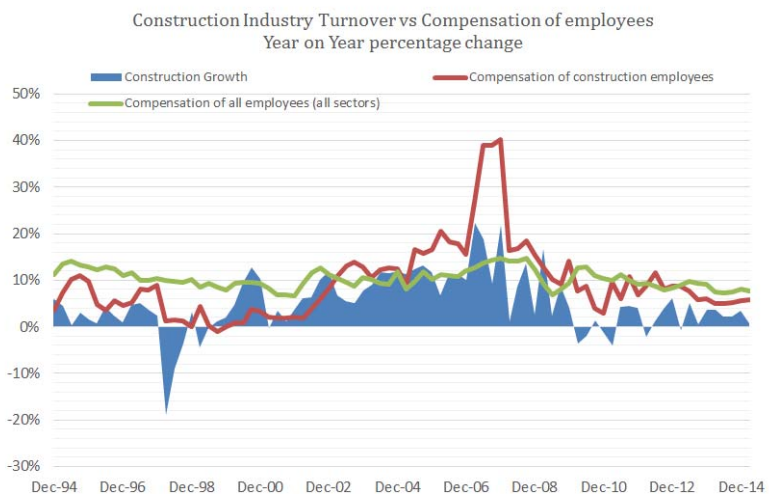
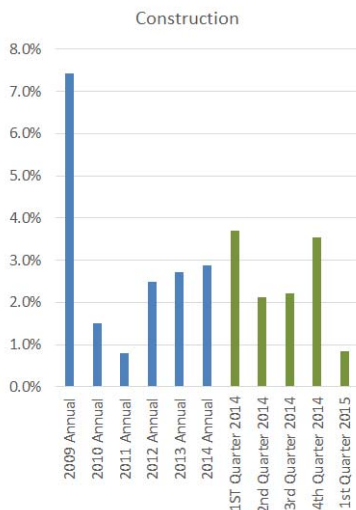
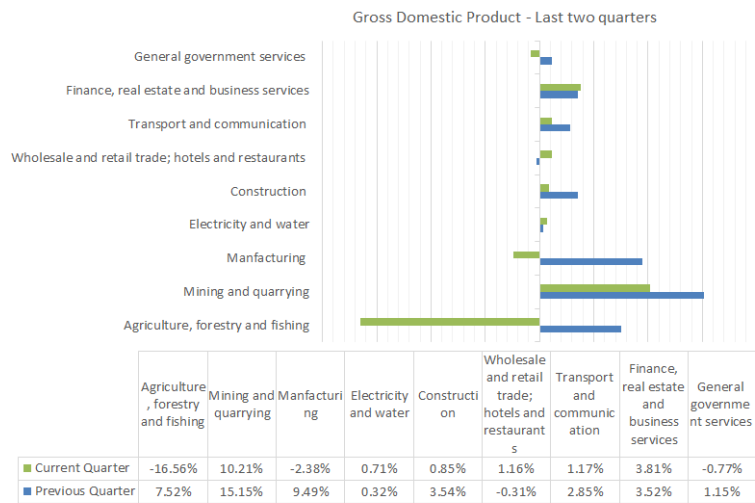
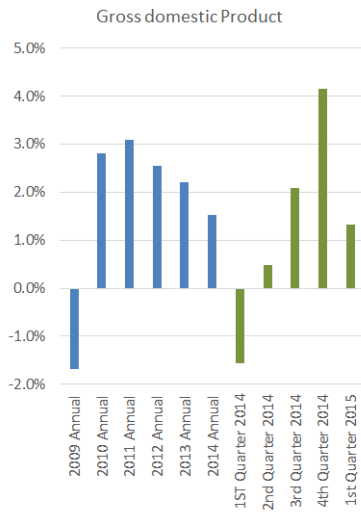
Table 3: Supply Side indicators and Prices

Indicator	Jan-15	Feb-15	Mar-15
Manufacturing	-2.4%	-0.4%	3.8%
Mining	-1.8%	7.8%	18.8%
CPI	4.4%	3.9%	4.0%
PPI	3.5%	2.6%	3.1%

Supply side indicators (manufacturing and mining production and the Purchasing Managers Index) surprised somewhat on the upside, but is still regarded as weak. Manufacturing production increased from negative growth rates to 3,8 percent in March 2015, while mining production accelerated to an increase of 18 percent largely due to the recovery in the platinum production affected by last year's five months strike action. According to Kagiso's PMI index, new sales orders edged up by 5.1 percent y-y in March, although overall business activity remains in negative territory down 10,5 percent. The impact of load shedding which started in full force in April 2015 will only be evident in the next round of data to be released, but will more than likely slow production growth.

Inflationary pressures are starting to mount, as the impact of the higher petrol prices and additional fuel levy taxes are starting to filter through. Inflation is likely to breach the 6 percent upper target by the end of the year, or first quarter of 2016, mainly due to the base effect of the low inflation in the first quarter of 2015. Consumer inflation increased to 4.5 percent in April 2015 from 4.0 percent in March. Producer prices also started to accelerate from 2.6 percent in February 2015 to 3.1 percent in March.

Q-Q, Seasonally Adjusted, Annualised	2010 Annual	2011 Annual	2012 Annual	2013 Annual	2014 Annual	1st Quarter 2014	2nd Quarter 2014	3rd Quarter 2014	4th Quarter 2014	1st Quarter 2015
Agriculture, forestry and fishing	0.9%	-0.4%	2.3%	1.5%	5.6%	4.79%	5.63%	9.50%	7.52%	-16.56%
Mining and quarrying	5.8%	0.2%	-4.0%	4.0%	-1.6%	-22.85%	-3.03%	3.90%	15.15%	10.21%
Manufacturing	5.0%	2.4%	2.4%	0.7%	0.0%	-6.37%	-4.00%	-0.97%	9.49%	-2.38%
Electricity and water	2.0%	1.3%	-1.2%	-0.6%	-0.9%	0.22%	-0.53%	-1.08%	0.32%	0.71%
Construction	1.5%	0.8%	2.5%	2.7%	2.9%	3.70%	2.13%	2.22%	3.54%	0.85%
Wholesale and retail trade; hotels and restaurants	2.2%	4.4%	3.6%	1.9%	1.3%	1.53%	-0.25%	3.41%	-0.31%	1.16%
Transport and communication	2.9%	3.3%	2.3%	2.0%	2.3%	1.42%	3.86%	2.24%	2.85%	1.17%
Finance, real estate and business services	1.9%	3.5%	3.3%	3.0%	2.2%	1.36%	1.19%	2.41%	3.52%	3.81%
General government services	3.0%	3.9%	3.1%	3.1%	3.0%	2.35%	3.94%	2.15%	1.15%	-0.77%
Total value added at basic prices	2.8%	3.0%	2.4%	2.3%	1.6%	-1.75%	0.70%	2.17%	4.06%	1.10%
Taxes less subsidies on products	3.0%	4.4%	3.8%	1.3%	1.1%	0.34%	-1.67%	1.24%	5.06%	3.67%
GDP at market prices	2.8%	3.1%	2.5%	2.2%	1.5%	-1.6%	0.5%	2.1%	4.1%	1.3%



The South African economy faces several risks in the next two years:

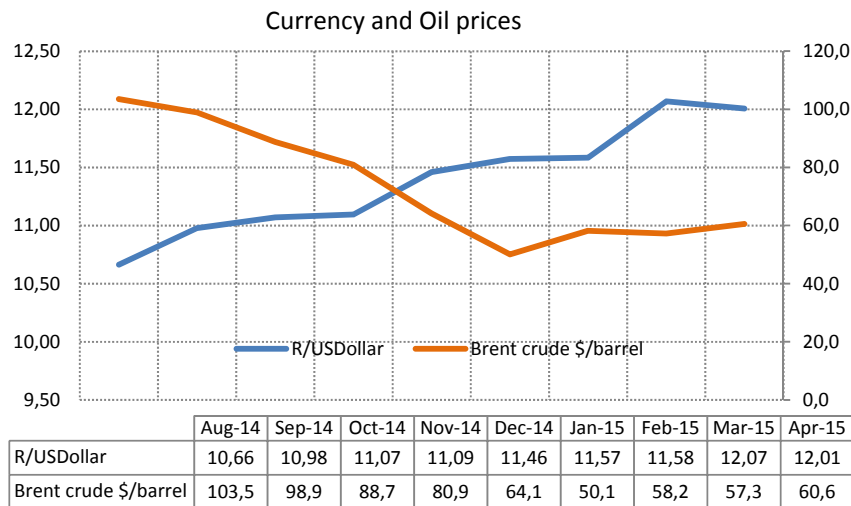
- Tightening of monetary policy by the US Federal Reserve that could tighten the interest rate differential between SA and the US, leading to capital outflows and a weaker currency. This in turn will have a negative impact on imported inflation.
- Government is under immense pressure to rein in costs and curb spending, as rating agencies flag possible downgrades. Further downgrades by the credit rating agencies will put South Africa outside of the investment grade, similar to the “junk status” just recently received by Russia. This will also lead to significant capital outflows.
- Currency volatility associated in general with emerging market risks and capital flows
- Weak private sector sentiment and confidence will continue to impact negatively on consumption expenditure and investment.
- Policy uncertainty especially in the formulation of the new land ownership bill. Cabinet is yet to decide on the exact scope of the ban on foreign land ownership and to which categories of land it will apply. There has been an outcry following this announcement, which further proposes a limit of 10,000 hectares on

commercial farm owners. However, Tourism Minister Derek Hanekom does not see this as a threat to foreign investment, but major investors from countries such as Germany has already voiced their concerns.

- Amendments to several legislations are currently being proposed that could have a negative impact on property and foreign investment in the country. These include the Expropriation Bill, the Land Act Amendment Bill, the Private Security Industry Regulatory Amendment Bill, the Minerals and Petroleum Development Amendment Bill and the Promotion and Protection of Investments Bill. According to a recent Business Survey by Grant Thornton, 85% of business surveys, expect implementation of these bills will result in disinvestment by foreign owned companies. The United States has already come out in full force against the South African law that will require foreign-owned security companies to sell at least 51 percent of their businesses to locals. This could for example result in South Africa being more critically reviewed when it's time to renew SA's participation in Agoa (African Growth and Opportunity Act). Agoa is a trade scheme that gives Sub-Saharan countries preferential access into the US market.
- It is hoped that the smooth resolution of the public sector wage agreement in 2015 may set the pace for fewer violent strike actions during the year. However service delivery strike action is expected to continue especially as more and more projects are being placed on hold further affecting the current poor state of delivery. Labour market instability and violent strike action has become the norm for South Africa, and is a major impediment for investment as well as a significant contributor to lower economic growth.
- South Africa need to address the ballooning public sector wage bill, sitting at R455bn. In an economy that has significant infrastructure deficits, it is simply not viable to spend such a vast amount of scarce resources (taxes) on public sector salary and wages, very often criticized for not being aligned with productivity. The public sector wage bill has risen more than 80 percent over the last decade as yearly increases have averaged more than 6 percent above inflation.
- Electricity constraints and load shedding has again reached critical levels in South Africa slowing investment as well as economic growth. Supply constraints are expected to be sustained for the next 18 to 24 months.

Table 4: Macroeconomic performance and projections (Source Industry Insight estimates)

	2012	2013	2014	2015	2016	2017
GDP	2.5	1.9	1.4	2.2	2.3	3.1
Household consumption	3.5	2.6	1.5	3.9	2.6	3.1
Government consumption	4.0	2.4	1.4	2.0	2.5	3.0
Gross Fixed capital formation	4.4	4.7	1.3	1.3	3.4	4.2
US/ZAR	8.2	9.7	11.0	12.1	12.7	11.4
CPI Inflation	5.7	5.8	6.2	3.8	5.5	5.6
Prime Lending rate	8.7	8.5	9.3	9.3	9.8	10.3
Current account % of GDP	(5.2)	(5.8)	(6.0)	(5.8)	(5.5)	(5.3)



The MPC did acknowledge that domestic inflation is not driven by demand factors that are more easily dealt with through monetary policy responses.

Figure 1: Currency and Oil prices

The Reserve Bank left the repo rate unchanged at 5.75 percent in May 2015 as decided by the Monetary Policy Committee. Electricity price adjustments are seen as real upward risk to inflation, even though the bank already factored in an increase of 13 percent over the next two years. Eskom has applied for a further 12, 6 percent from 1 July 2015, which will be decided at the end of June 2015. If this increase is approved, it will increase the bank's forecast on inflation. The outlook on core inflation remains below the upper 6 percent target and is expected to average 5,6 percent in 2015 and 5,4 percent in 2016. A further upside risk to inflation is the volatility of the rand exchange rate, particularly in response to anticipated changes to the US monetary policy. Food price inflation is a further concern, despite the continued moderation of global food prices. Domestic drought conditions has resulted in a need to import yellow maize, contributing to maize prices rising close to import parity levels.

A weaker currency mitigated any real gains from the lower international Brent crude oil price. As the price of oil recovered slightly from a monthly average of \$50/barrel in January 2015 to \$60.6/barrel in April, the rand weakened from R11.6/USDollar to R12.0 in April 2015. The price of oil likely to average between \$66/barrel and \$67/barrel in May, while the rand will remain in and around the R12/US Dollar mark, which will result in a further petrol price increase during the month of May.

Gross fixed capital formation

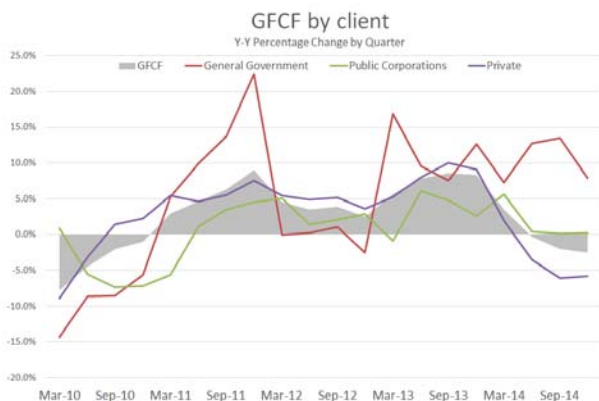


Figure 3: GFCF by Client, Y-Y percentage change by quarter



Figure 2: GFCF % of GDP

Investment growth in total gross fixed capital formation fell for the third consecutive quarter in the 4th quarter of 2014. Total investment contracted by 2,5 percent y-y in the 4th quarter, following a decrease of 2,0 percent and 0,3 percent in the previous two quarters. The contraction was largely due further disinvestment by the private sector, which contracted by 5,8 percent y-y in Q4, and by 6,1 percent and 3,5 percent in the first two quarters. No real growth was reported by State Owned enterprises in the last three quarters, while investment by the government sector slowed from an average increase of 13,1 percent y-y in Q2 and Q3 to just 8,0 percent in the 4th quarter.

Investment by government contributed less than 20 percent in the 4th quarter of 2014, to total GFCF. Private sector investment is critical to support GFCF as it represents more than 60 percent of total investment in the country. Business confidence, a pre-requisite to encourage stronger levels of investment, has shown no real improvement since 2007, and remains at a relatively neutral level of close to 50. A level above 50, suggest more people are positive, while below 50 suggests there are more people feeling pessimistic regarding business conditions in the country. The outlook for private sector investment growth therefore remains fairly muted. Business confidence dropped to a level of 49 in the first quarter of 2015, suggesting further depressed conditions in terms of private sector investment. Load shedding in the 2nd quarter of 2015 is likely to dampen private sector confidence even further.

Overall GFCF's contribution slowed to 20,5 percent of GDP in the 4th quarter, from 20,6 percent in the previous quarter and an average of 21,1 percent in 2013

Overall GFCF's contribution slowed to 20,5 percent of GDP in the 4th quarter, from 20,6 percent the previous quarter and an average of 21,1 percent in 2013.

Thus in spite of South Africa's attempts to accelerate investment and expenditure on infrastructure, it is clear that South Africa no longer has the ability to restore the growing imbalances in economic and social infrastructure requirements. Without the participation and support by the private sector and increased foreign investment, the infrastructure deficit is likely to continue to expand dampening South Africa's growth potential and ultimately making it near impossible to increase job creation and reduce inequalities.

Market Segment Analysis

- Investment in residential buildings fell by 7,4 percent y-y (constant prices, annualised), in the 4th quarter of 2014, with only marginal growth of 2,9 percent reported in non-residential investment. The nett effect is total investment growth in building that has been in decline since 2009, which means investment (in real terms) has shrunk by more than 25 percent since 2008. In real prices that equates to about R32 billion. Investment fell by 2,1 percent y-y in the 4th quarter of 2014, from -3,2 percent in the previous quarter.
- The private sector however did throw their weight behind the renewable energy sector, and was a significant contributor to higher levels of investment in construction works during 2013 and the first two quarters of 2014. Investment in renewable energy is likely to support some growth in 2015, but may be negatively affected by financial constrains slowing Eskom's ability to connect the newly developed renewable energy resources to the national grid.

- Overall investment growth in construction works, slowed to just 3.3 percent y-y in the 4th quarter, from 8,3 percent y-y in the previous quarter, and 17,4 percent and 30,0 percent y-y in the first two quarters, supported largely by higher levels of private sector investment in renewable energy projects.
- Investment growth in construction (including building and civil) subsequently moderated to an increase of just 1,5 percent y-y in the 4th quarter, from 4,2 percent in the previous quarter. during the last two quarters from 15,8 percent and 9,2 percent in the 1st and 2nd quarters to 4,7 percent y-y in the 3rd quarter.
- The outlook for investment in buildings is slightly more positive for 2015 as several large residential developments have started construction during 2015. Large projects are currently under development, including Waterfall Estate in Midrand, The Mall of the South as well as various projects in and around the V&A Waterfront in the Western Cape, supporting some growth in 2015. The start of the R11bn proposed Vaal River Resort by the end of the year will cushion the current downturn in the industry but real impact of this project may only be evident towards the latter part of 2016 and 2017.

Please note that the Reserve Bank revised quarterly figures in the September 2014 Quarterly Bulletin, adjusting historical gross fixed capital formation numbers, largely downwards. Data in the tables below have been adjusted to 2010 constant prices (from 2005 prices).

Table 5: GFCF by client type, 2010 prices

	<i>Rm, 2010 prices, seasonally adj annualised</i>				<i>Annual Percentage Change</i>				<i>GFCF % of GDP</i>
	General Government	Public Corporations	Private Business enterprises	Total	General Government	Public Corporations	Private Business enterprises	Total	
2007	84800	70900	367606	523306	22.9%	35.3%	8.6%	13.8%	19.9%
2008	91122	98074	401211	590407	7.5%	38.3%	9.1%	12.8%	21.8%
2009	84155	117410	349422	550987	-7.6%	19.7%	-12.9%	-6.7%	20.7%
2010	76204	111709	341518	529431	-9.4%	-4.9%	-2.3%	-3.9%	19.3%
2011	85918	112575	361245	559738	12.7%	0.8%	5.8%	5.7%	19.7%
2012	85599	115799	378518	579916	-0.4%	2.9%	4.8%	3.6%	20.0%
2013	95537	119428	409162	624127	11.6%	3.1%	8.1%	7.6%	21.1%
2014	105382	121281	395052	621715	10.3%	1.6%	-3.4%	-0.4%	20.7%
1 st QTR 2014	102,252	121,523	401,520	625,295	7.3%	5.6%	1.9%	3.5%	20.9%
2 nd QTR 2014	104,666	120,483	391,566	616,715	12.8%	0.4%	-3.5%	-0.3%	20.6%
3 rd QTR 2014	106,541	121,183	392,718	620,442	13.5%	0.2%	-6.1%	-2.0%	20.6%
4 th QTR 2014	108,069	121,935	394,404	624,408	7.9%	0.2%	-5.8%	-2.5%	20.5%

Source: South African Reserve Bank, Quarterly Bulletin

Table 6: GFCF Building and Construction (Rm)

	<i>GFCF Residential</i>		<i>GFCF Non-residential</i>		<i>Total Residential + Non-residential</i>		<i>GFCF Construction works</i>		<i>Total (Residential, Non-residential & Construction works)</i>	
	Current prices	2010 prices, SEA Adj annualised	Current prices	2010 prices, SEA Adj annualised	Current prices	2010 prices, SEA Adj annualised	Current prices	2010 prices, SEA Adj annualised	Current prices	2010 prices, SEA Adj annualised
2007	56,244	71,431	41,748	52,320	97,992	123,751	74,880	92,834	172,872	216,585
2008	60,678	65,601	57,681	61,473	118,359	127,074	128,376	134,572	246,735	261,646
2009	59,853	61,995	60,958	63,215	120,811	125,210	155,988	159,850	276,799	285,060
2010	50,645	50,645	60,810	60,811	111,455	111,456	147,831	147,831	259,286	259,287
2011	53,978	51,244	55,763	52,682	109,741	103,926	160,546	152,275	270,287	256,201
2012	55,955	50,219	56,048	49,541	112,003	99,760	164,814	148,329	276,817	248,089
2013	55,320	46,676	59,921	49,728	115,241	96,404	194,263	165,813	309,504	262,217
2014	55,497	43,975	62,495	49,005	117,992	92,980	230,811	188,981	348,803	281,961
1 st QTR 2014	14641	48798	16132	50078	30773	98876	57364	188112	88137	286988
2 nd QTR 2014	13391	42476	15412	48769	28803	91245	57499	189993	86302	281238
3 rd QTR 2014	13714	42282	15291	48459	29005	90741	57543	187936	86548	278677
4 th QTR 2014	13751	42344	15660	48714	29411	91058	58405	189883	87816	280941

Source: South African Reserve Bank Quarterly Bulletin

Table 7: GFCF: Y-Y percentage change (real prices seasonally adjusted)

	<i>Residential</i>	<i>Non-Residential</i>	<i>Total Buildings</i>	<i>Construction Works</i>	<i>Total Construction</i>	<i>Total GFCF</i>
2007	-6.3%	9.0%	0.8%	44.5%	19.5%	14.0%
2008	-8.2%	17.5%	2.7%	45.0%	20.8%	12.8%
2009	-5.5%	2.8%	-1.5%	18.8%	8.9%	-6.7%
2010	-18.3%	-3.8%	-11.0%	-7.5%	-9.0%	-3.9%
2011	1.2%	-13.4%	-6.8%	3.0%	-1.2%	5.7%
2012	-2.0%	-6.0%	-4.0%	-2.6%	-3.2%	3.6%
2013	-7.1%	0.4%	-3.7%	11.8%	5.7%	7.6%
2014	-5.8%	-1.5%	-3.6%	14.0%	7.5%	-0.4%
1 st QTR 2014	-6.2%	-1.8%	-4.0%	30.0%	15.8%	3.4%
2 nd QTR 2014	-1.6%	-6.9%	-4.5%	17.4%	9.2%	-0.3%
3 rd QTR 2014	-6.9%	0.4% (revised)	-3.2% (revised)	8.4%	4.2%	-2.2%
4 th QTR 2014	-7.4%	2.9%	-2.1%	3.3%	1.5%	-2.5%

Source: South African Reserve Bank Quarterly Bulletin

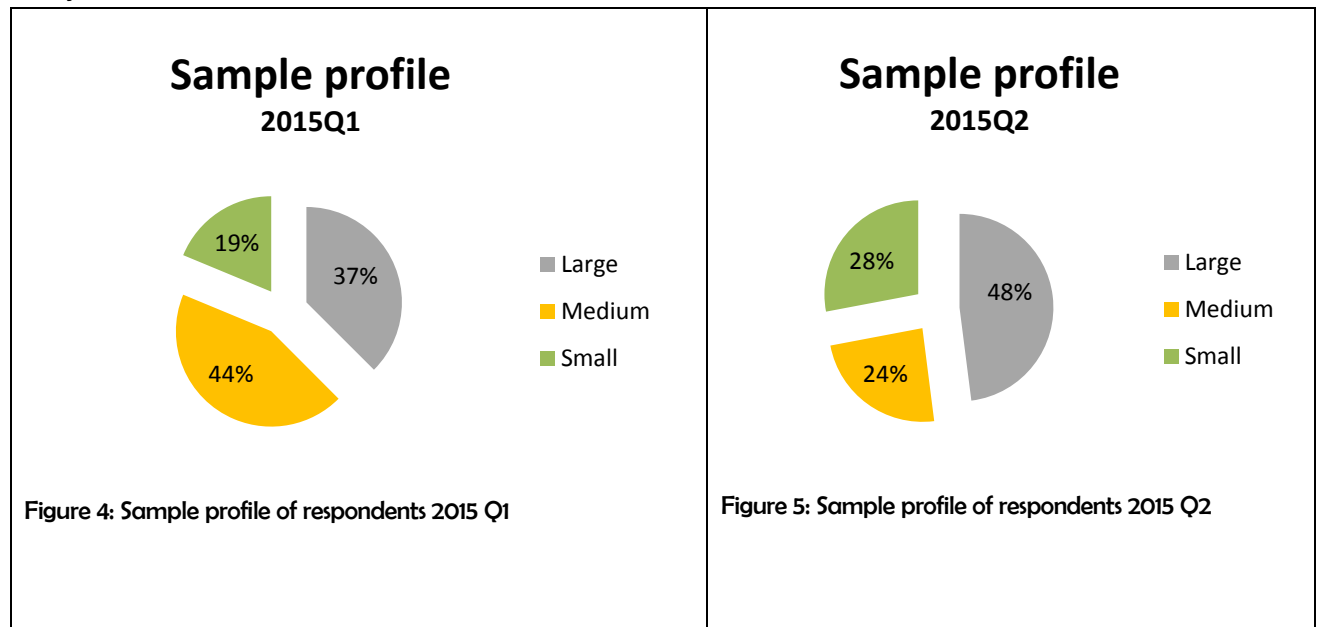
THE POSITION OF THE CIVIL ENGINEERING INDUSTRY

Background

- SAFCEC reviewed and redesigned the questionnaire which was distributed to all SAFCEC members during May 2015.
- It is important to increase the usability of the industry report for all SAFCEC members, including small, medium and large enterprises. For this reason more focus is given to the developing trends within the defined employment categories. The categories are as follows:
 - Small : Employing less than 100 people
 - Medium: Employing between 100 and 1000 people
 - Large: Employing more than 1000 people
- Responses are weighted according to employment only where applicable. Comparisons between the different firm-size categories are not weighted as responses between the firm sizes have already been categorised.

Sample profile

Large firms represented 48 percent of the current sample, vs 37 percent in the previous survey. The contribution by medium size firms dropped to 24 percent from 44 percent while smaller firms represented 28 percent in the current survey.



Financial Statistics

- The total value of civil engineering construction certified for payment in the 1st quarter of 2015, increased by 6,0 percent, when compared to the 4th quarter of 2014. This follows the 1,8 percent decline in the previous quarter, which resulted in a 2,5 percent real decrease in annual turnover in 2014.
- The total number of employees (including Permanent and Limited Duration) employed in South Africa only, fell by 2,4 percent since the 4th quarter of 2014. Limited duration employees fell by 4,5 percent vs a -0,7 percent decrease reported in permanent employees. An estimated 103 774 people are currently employed in the civil engineering construction sector, from around 200 000 in 2009. Employment growth has been largely flat since 2010.

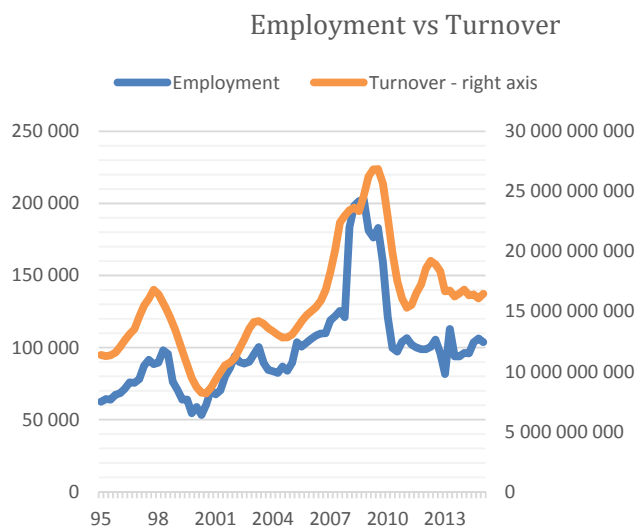


Table 8: Employment change q-q, by firm size

	Limited Duration	Permanent Employees	Total	% Limited Duration of total workforce
Large	-5.2%	-0.8%	-2.73%	50.4%
Medium	3.5%	-3.0%	0.51%	56.1%
Small	-9.5%	15.6%	10.53%	17.6%
Total	-4.5%	-0.7%	-2.38%	50.6%

- The nominal value of **salary and wages** fell by 5 percent in the 1st quarter of 2015 compared with the last quarter in 2014. The cumulative value of the salary and wage bill fell by 3 percent for the larger firms, 26 percent for medium size firms and fell by 11 percent for smaller firms. Most of the firms that did manage to report an increase were amongst the smaller size firm category.
- The contribution of the salary and wage bill to turnover averaged between 27 percent and 28 percent, which is much higher compared to the average of 24 percent in the previous survey and between 22,0 percent and 23,0 percent, reported in previous surveys.
- Late payments (measured as the total value of late payment for civil works completed and already invoiced), increased by 45 percent in the 1st quarter of 2015, since the 4th quarter, following the 7 percent q-q contraction reported in the 4th quarter of 2014 (previous survey). Late payments may also be a factor related to delays in certification which in turn highlights the growing concerns around competency.
- The value of late payment as a percentage of turnover averaged 13 percent in 2014, and accelerated to 14,8 percent by the 4th quarter of 2014 and 18 percent in the 1st quarter of 2015. The Department of Public Works' new proposed regulations (under the Construction Industry Development Board (CIDB) Act 2000) could however pave the way for a more affordable and efficient resolution of disputes over non-payment of contractors

and subcontractors. The CIDB Prompt Payment Regulations and Adjudication Standard contained in the draft amendment, proposed necessary changes that would enable a fair resolution of payment disputes and provide contractors with a platform to take a more hardline stance in demanding timely payment for work done. A recent CIDB study found that out of 900 contracts, 43 percent of payments to contractors were made more than 30 days after invoicing.

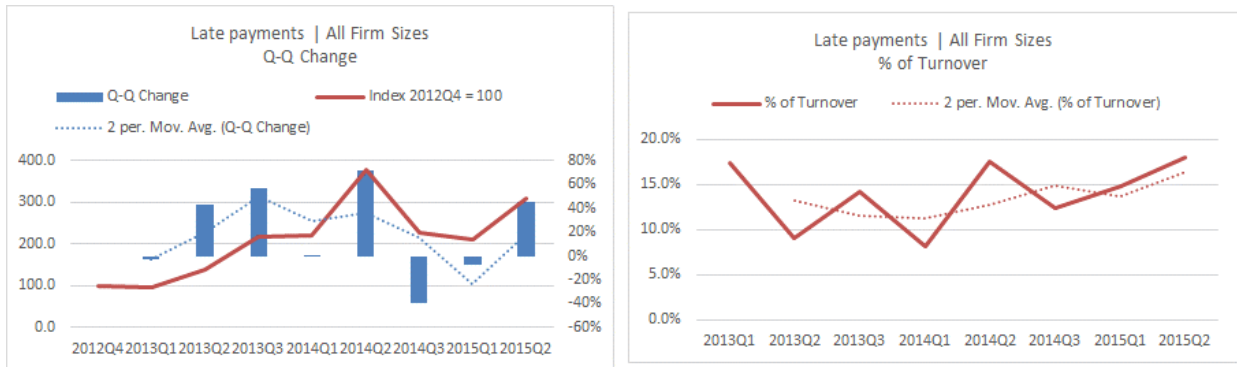


Figure 6: Late payments

- The nominal value of the " **two year forward order book**" for South Africa increased by an average of 3 percent q-q following the 6,6 percent increase reported in the 4th quarter. The nominal value of order books for large contractors increased by 1 percent (vs 7,5 percent in the previous survey). The outlook in terms of the order book is currently more favourable for medium size contractors.

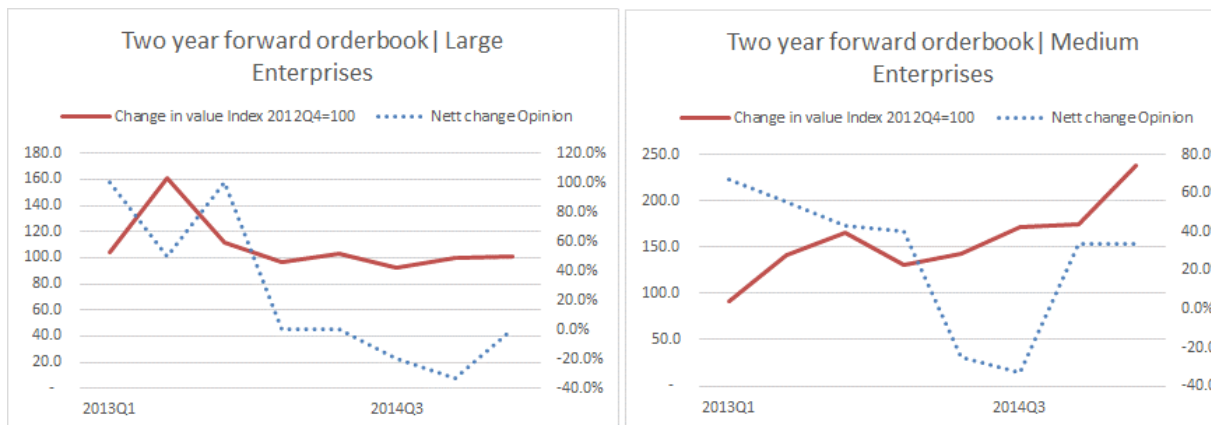


Figure 7: Two year forward order book

Financial performance of listed companies

Since our last report, results for the period ending 28 February 2015 were released for Raubex and Stefanutti Stocks. Both these companies reported positive results, and an improvement from previous year's performance. Both Raubex and Stefanutti Stocks are well positioned to maximise opportunities in the medium market segment.

Raubex reported positive results for the 12 months ended 28 February 2015.

- Raubex reported another year of double digit growth. Total revenue increased by 14,5 percent to R7.25 billion, while operating profit increased by 15,2 percent to R622.2 million. Operating margins improved only slightly from 8,5 percent in 2014 to 8,6 percent this year.
- Revenue growth for road surfacing and rehabilitation was lower at 2,5 percent to R2.57 billion, and was accompanied by a decrease of 8 percent in operating profit. Margins were still at above 7 percent, although it was lower by comparison to last year (8,4 percent). The order book increased to R2.47bn (up 38 percent).
- Road construction and earthworks reported an impressive 24 percent increase in revenue to R1.46 billion and a 37 percent increase in operating profit to R55.2 million. Margins are still very low in this market segment, but did show some improvement to 3.8 percent (2014: 3.4 percent). The orderbook increased by 54 percent R3.02 billion, with close to 50 percent secured in Zambia and Namibia.
- Revenue growth in infrastructure (renewable energy, rail, telecommunications, pipeline construction and housing) increased by 18 percent, but alongside weaker margins which fell to 4.6 percent (2014: 5.1 percent). The order book increased by 12 percent to R1.0 billion.
- Overall the group has grown its order book by 32 percent to R8.68 billion with 25,4 percent of the order book representing contracts in Africa.
- Acquisitions and expansions in the material sector has resulted in the material division contributing over 50 percent of the Groups total earnings. Further acquisitions are on the cards for the year, and Raubex already secured the Belabela quarry in Gaborone, providing a much needed platform for Raubex to enter the Botswana market.

Awards of CIDB grade 9 projects

Fewer Grade 9 civil projects were put out to tender during the 1st quarter of 2015. In the 1st quarter 4 road and 4 water projects were put out to tender at a CIDB Grade 9 level, compared with an average of 22 per quarter in the previous three quarters. Tender activity increased only in terms of Grade 7 and 8 contracts, which increased by 6 percent y-y over the last 12 months. Grade 9 projects reported a 11 percent decrease during the same period.

The month of April 2015 reported some improvement, with a total of 7 projects published at tender stage (civil), situated mainly in Limpopo. These projects relate mainly to road projects.

This means that there are still relatively good prospects for medium size contractors, while the outlook for higher grade projects have deteriorated somewhat.

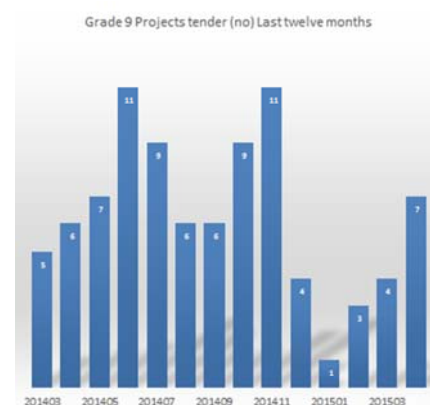


Figure 8: Grade 9 civil projects at tender stage

Stefanutti Stocks also released their financial results for the year ended February 2015 and showed a notable improvement in its performance compared to the previous year.

- Revenue increased by 15 percent to R10.6 billion, alongside a 50 percent increase in operating profit to R335 million. Operating margins improved to 3.2 percent from 2.4 percent in 2014.
- The order book remained relatively unchanged at R12.4 bn, consisting of mainly medium-sized projects, within the transport infrastructure, oil and gas markets. Approximately 34 percent of the order book now falls outside of South Africa.
- The structures division experienced some difficulties with a 3,8 percent drop in revenue, and lower operating profits. Margins also declined to a level of 3.1 percent. However considering the current constraints and limited government and private sector work, the division has not performed too poorly.
- Roads, Pipelines and Mining Services reported a 25 percent increase in revenue to R3.0 billion, and 16,9 percent increase in operating profit to R221 million, although the margin reduced slightly to 7.5 percent from 7.8 percent for 2014. This division's performance was largely supported by roads and Earthworks and Swaziland divisions, as mining services and pipelines continue to experience tough market conditions. The drop in the oil price has affected work opportunities in countries such as Nigeria.
- The building division returned profitability, albeit marginal. Revenue increased by 41 percent to R4.4 billion.

WBHO reported a 11,1 percent increase in revenue in the 6 months to December 2014, to R14.7 billion, but this was accompanied by a 25,8 percent drop in operating profit to R397 million, lowering the margin from 4,1 percent in 2013 to 2,7 percent. Construction of the main civil works at Kusile Power station is nearing completion and continued to contribute strongly towards the civil engineering's division revenue. Close to 70 percent of the group's order book is now located in Australia (from 63 percent in 2013).

Basil Read in the mean time has announced that it would sell its energy unit and was in talks to shut down an engineering division under plans to off-load non-core assets. This follows a profit warning by Basil Read in March 2015, stating that earnings will be negatively affected by poor economic conditions and difficulties on projects.

Aveng also reported weaker earnings in the 12 months to December 2014, down 14 percent as net operating earnings dropped 19 percent, offset marginally by the weaker rand to the Australian dollar exchange rate. Operating margins moderated to 1,7 percent from 1,8 percent.

Group Five also reported disappointing results in the 6 months period up to December 2014, with a 11,5 percent drop in revenue to R6.9 bn, and a 37 percent drop in operating profit to R206 million. Operating margins also weakened to 2,9 percent from 4,2 percent in 2013.

Table 10: Turnover distribution by client

	Large	Medium	Small	Total 2014Q1	Total 2014Q2	Total 2014Q4	Total 2015Q1
Central	6.4%	2.1%	7.2%	16.4%	15.1%	8.1%	6.1%
Provincial	4.0%	2.0%	27.5%	9.2%	3.0%	12.1%	4.0%
District/Local/Metropolitan Councils	7.6%	79.3%	42.5%	5.6%	6.5%	9.4%	14.1%
Parastatals	44.3%	12.3%	3.0%	27.1%	36.4%	30.5%	41.1%
Private	37.7%	4.3%	19.8%	41.8%	39.0%	39.9%	34.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Data for the third quarter not available

Client Contribution

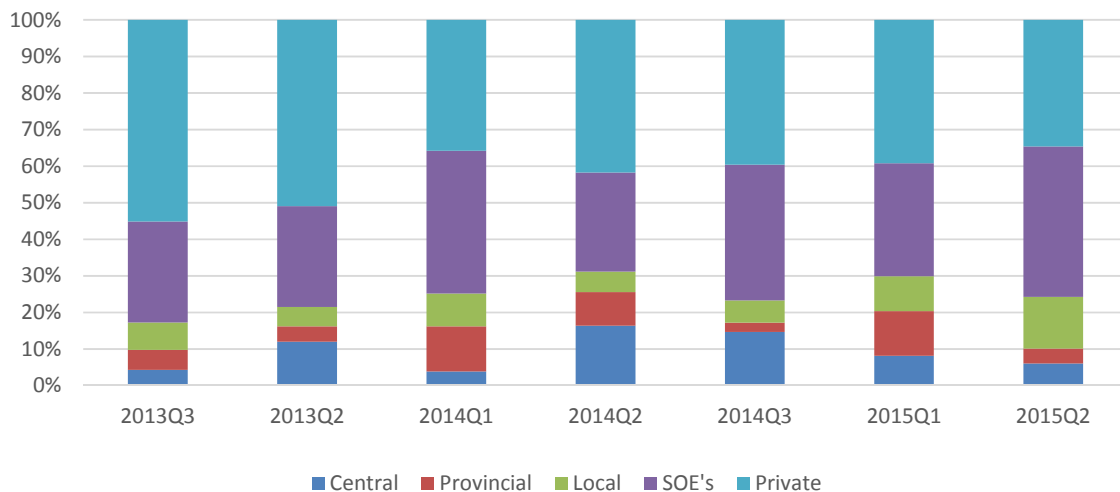


Figure 9: Client contribution to turnover

The contribution by the private sector in this survey moderated to 34,6 percent, from an average of 39 percent in the previous two surveys, while the contribution by Parastatals increased to 41,1 percent from 30,5 percent. The contribution by district/local and metropolitan councils increased to 14 percent of turnover, from 9,5 percent in the previous survey. Medium size firms earned close to 80 percent of their turnover from these district / local and metropolitan councils.

Table 11: Geographic Distribution of the value of civil engineering construction work (turnover)

Province	Large	Medium	Small	2014Q1	2014Q2	2014Q4	2015Q1
GAU	16%	74%	2%	17%	19%	22%	22%
WC	4%	20%	45%	13%	6%	8%	6%
EC	10%	3%	44%	6%	4%	6%	9%
NC	8%	0%	0%	7%	6%	1%	7%
MPU	24%	0%	0%	20%	23%	29%	22%
FS	6%	3%	0%	8%	9%	7%	6%
LIM	14%	0%	5%	11%	10%	10%	12%
NW	4%	0%	3%	2%	3%	4%	3%
KZN	14%	0%	0%	17%	18%	12%	12%
Total	100%	100%	100%	100%	100%	100%	100%

Mpumalanga and Gauteng each contributed 22 percent to responding firm's turnover in the current survey, followed by Kwazulu Natal (12 percent). Larger firms were more active in Mpumalanga and Kwazulu Natal by comparison to the medium size firms, while medium size firms were more concentrated in Gauteng and Western Cape area.

In order to fill the void in the regional sample, a comparison between survey results and an independent database of domestic civil contracts awarded over the last four quarters, is included in the next section. Please note that the project database unfortunately excludes infrastructure related to mining developments, an important discipline to the larger construction firms. Nonetheless it provides a yardstick for comparative purposes. A breakdown by province is also provided.

Table 12: Value (nominal) of civil contracts awarded: Y-Y change (same qtr previous year)

	2014Q1	2014 Q2	2014Q3	2014Q4	2015Q1	2014	2013	2012
EC	89%	-28%	79%	90%	39%	51%	7%	-9%
FS	-42%	127%	58%	46%	288%	25%	-5%	56%
GAU	-64%	-81%	158%	-60%	-5%	-28%	55%	6%
KZN	17%	176%	25%	-57%	-32%	21%	42%	-5%
LIM	109%	5%	435%	244%	-78%	136%	-59%	-45%
MPU	-62%	-90%	-26%	1248%	78%	-48%	-18%	-11%
NW	-43%	-42%	841%	139%	-49%	2%	1%	43%
NC	-65%	-77%	87%	88%	-18%	-40%	-52%	15%
WC	-25%	-51%	-80%	-2%	47%	-44%	46%	-12%
TOTAL	-19%	-21%	49%	7%	15%	-1%	10%	-6%

Source Industry Insight project database, Databuild

The nominal value of civil contracts awarded increased by 15 percent in the 1st quarter of 2015, compared with the same quarter in 2014, and was up by almost 40 percent compared to the previous quarter (4th quarter 2014). This is the third consecutive quarter of positive growth in the value of civil contracts awarded, but is coming off a low base considering the steep declines reported in the first half of 2014.

The most significant increase was reported in the Free State, where the value of awards increased by 288 percent (or R1,5 bn) since the 1st quarter of 2014. Kwazulu Natal reported the strongest decline, down 32 percent or close to R1bn, but is coming off a higher base, following robust growth since 2013.

The table below shows the movement by province, smoothed over a running twelve month period.

Provincial charts included in Annexure C

Quarterly Percentage change (MAT, Real)

Quarter	EC	FS	GAU	KZN	LIM	MPU	NWP	NC	WC	TOT
201402	-5.8%	-16.9%	-46.2%	46.5%	-1.3%	-73.7%	-65.9%	-78.9%	4.7%	-20.2%
201403	4.7%	8.2%	-21.4%	45.1%	61.2%	-74.4%	-34.3%	-66.0%	-45.2%	-11.1%
201404	43.3%	19.9%	-33.9%	14.8%	133.9%	-50.9%	-2.7%	-41.6%	-48.6%	-6.5%
201501	35.1%	119.4%	-13.8%	0.9%	50.6%	-10.7%	3.4%	-22.9%	-36.8%	5.6%
<i>Change in rand terms</i>	1,375	1,690	(576)	56	574	(199)	41	(151)	(1,426)	1,383

Economic Indicators

Economic indicators generally depict the “opinions” of respondents related to work conditions, tempo of work activity, competition for tenders, profitability and prices. It measures contractors’ sentiment during the survey period (2nd quarter 2015).

The mostly negative market sentiment continues to prevail since 2009, but the level of sentiment expressed by respondents have reached new lows during the 1st quarter of 2015.

- **The nett % satisfied with working conditions** during the 4th quarter 2014, fell to -79.1 from -56.9 in the previous survey, as majority of contractors reported quiet conditions (78,0 percent).
- The nett % satisfied with working conditions in the current quarter remained in deep negative territory, but improved from a level of -95 to -71. Close to 70 percent of firms reported quiet conditions.
- The outlook for the next quarter, remains negative (-70.01), as only 9 percent of contractors expect (at best) satisfactory conditions. The majority (74 percent) expect the more depressed conditions to continue into the following quarter.
- **Competition for tenders** has reportedly eased somewhat during 2014, and while the number of contractors that reported more than 25 bids per tender increased to 4,6 percent in the previous survey, it slowed to 2,1 percent in the current survey. Majority of firms reported competition of between 5 and 10 bids per tender. Tender prices remain under pressure with only 2,3 percent of respondents saying tender prices were reasonable. Majority reported tender prices as keen (68,7 percent) or very low (29,0 percent).
- Only 11,6 percent reported satisfactory levels of **profitability** during the period under review, compared to 44 percent and 19 percent in the previous two surveys. Close to 90 percent of companies reported very low to low profitability levels.
- According to 39 percent of firms, the developing trend in profit margins is receding, supported mainly by a more dismal outlook on profitability expressed by the larger firms. Only 13 percent expect an improvement, the bulk of which are smaller size firms.

A positive rate implies more firms reported improved business conditions, while a negative rate implies majority of firms reported a more pessimistic outlook on the industry.

Please note that these calculations are weighted according to a firm's total reported work force in RSA.

Profitability Nett Percentage Satisfactory

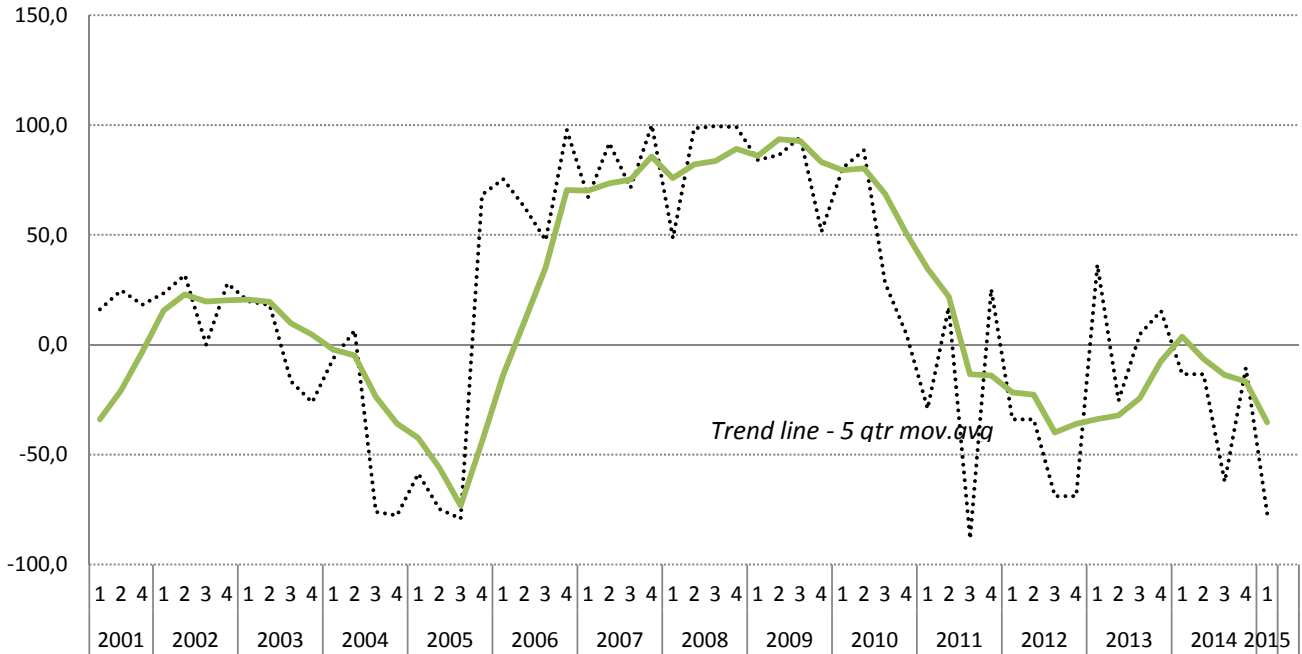
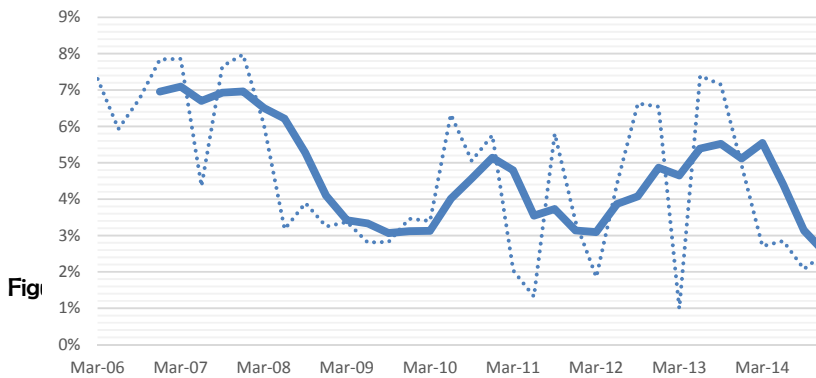


Figure 10: Opinions related to Profitability

Construction Industry
Nett profit or loss before taxation (% of total income)

..... Nett Profit
 ———— 4 per. Mov. Avg. (Nett Profit)



According to Stat SA's estimates, profit margins improved only marginally to 2,5 percent in the 4th quarter of 2014, from an average of 2,1 percent in the previous quarter.

Margins are more erratic, a trend mirrored by the confidence index depicting profitability. Thus smoothed over a four quarter period the trend remains in a downward trajectory.

In rand terms profitability fell by 47 percent y-y by the 4th quarter, the strongest decline since 2011 when profit fell by 40 percent. In rand terms, industry profitability contracted by R6,9bn to R9,0 bn from R16,0 bn (as at 4th quarter 2013). Refer charts below.

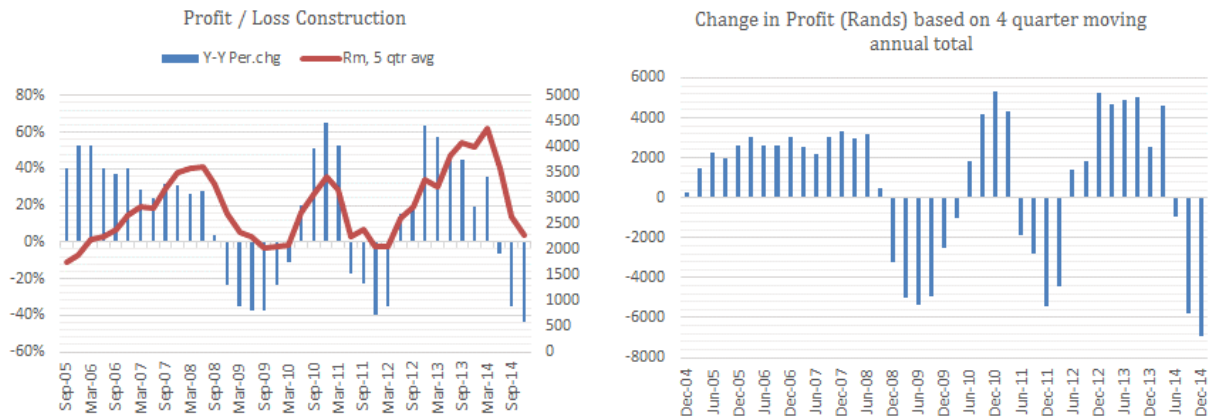
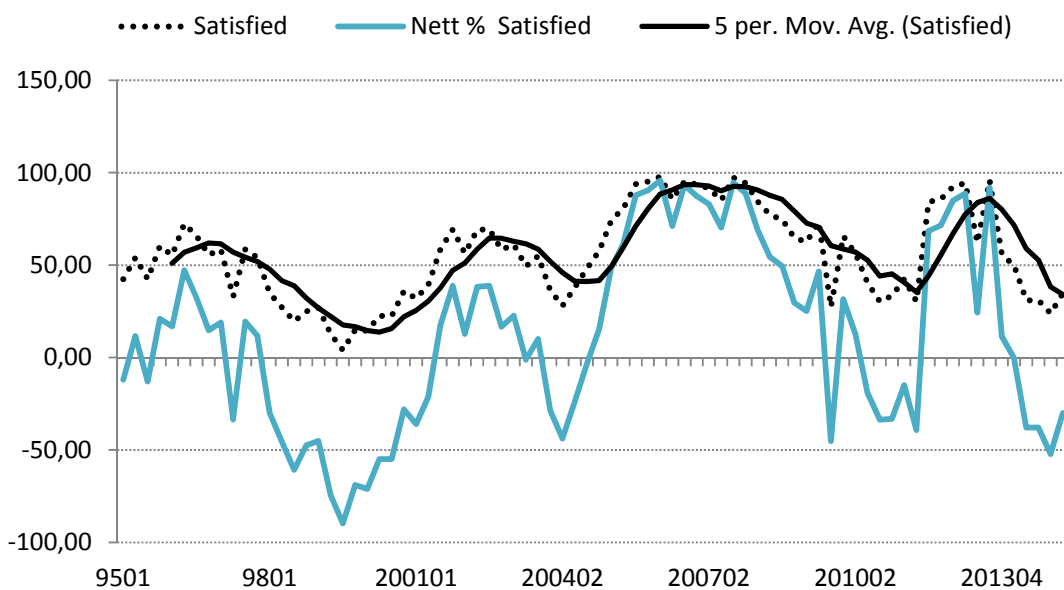


Figure 12: Profit/Loss Total construction, Source Stats SA Quarterly Financial Statistics P0044

- While current business conditions are clearly more depressed affecting tender prices and profitability, the more negative outlook in terms of **order books** suggests these difficult times are likely to continue or get progressively worse. The nett % satisfaction rate remained in negative territory but improved from -52.2 in the previous survey to -30.1. Majority of firms still feel the order book values are low (65 percent), while 34 percent reported satisfactory levels (from 23,9 percent in the previous survey). Order books are negatively affected by the slow roll-out of public infrastructure, low confidence in mining sector which is delaying capital expenditure, while projects are broken into smaller projects, benefitting Grade 7 and 8 contractors more so than Grade 9 contractors, but even this has worsened to even lower Grade projects.

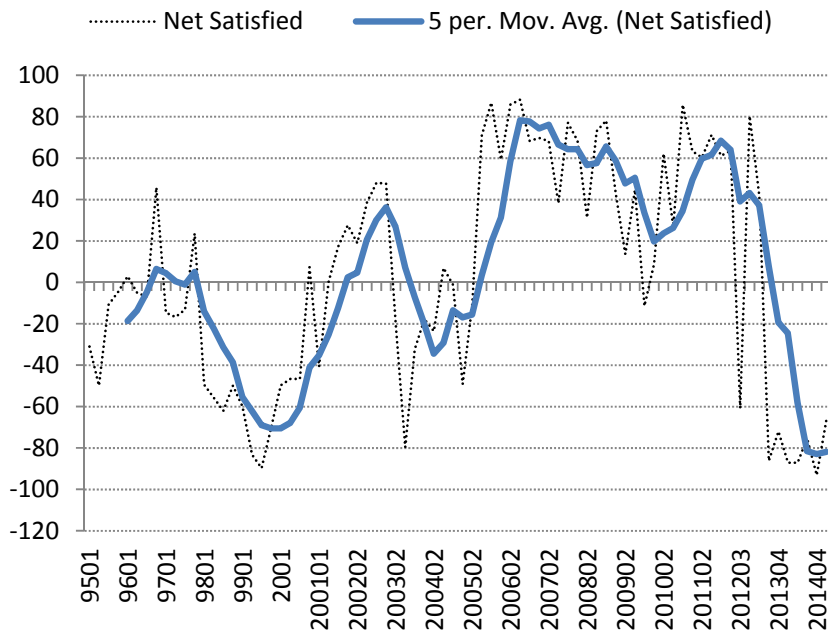
State of Orderbooks



Opinions related to tenders, awards, order books and turnover

Tender activity

New work Tendered for : Confidence Index



Explanatory note: Tender activity is a crucial indicator, being a first warning of the potential volume of work. The confidence reflected by companies regarding this indicator is therefore crucial and often deviates from the actual physical number of tenders during a period. The rate of involvement in cross border activity of larger contractors has increased in recent quarters, to counter act the impact of the dearth in work opportunities domestically in which they can compete. Some larger companies recently announced that the percentage contribution of work outside of South Africa is larger than revenue generated inside the country. Because these indicators are weighted, the opinions and perceptions of larger firms impacts quite heavily on the overall trend, and the impact of "cross border" activity must not be undermined in the movement of these indices.

Figure 13: Opinions of new work tendered for

- Majority of firms continued to express their dissatisfaction with tender volumes. The nett satisfaction rate remained at almost historical record low levels over the past six surveys, but recovered marginally to -66.8 percent in Q1, from -93.0 in the previous survey. The trend line based on a 5 quarter smoothed average, is deep in the red but the downward trajectory has started to slow down.
- Actual tender activity based on the number of projects published at tender stage for civil works, has been on a decline since the 4th quarter of 2013, and fell for the 6th consecutive quarter on a year on year basis. The number of tenders published for civil works fell by 26 percent y-y in the 1st quarter of 2015, compared with the same period in 2014, following the 22 and 21 percent decrease reported during the previous two surveys. Compared to 2011, tender activity has fallen by 42 percent.
- Bulk of tender activity in the 1st quarter of 2015 related to Grade 3 and 6 local municipal tenders.

Figure 14: Civil Tender Activity

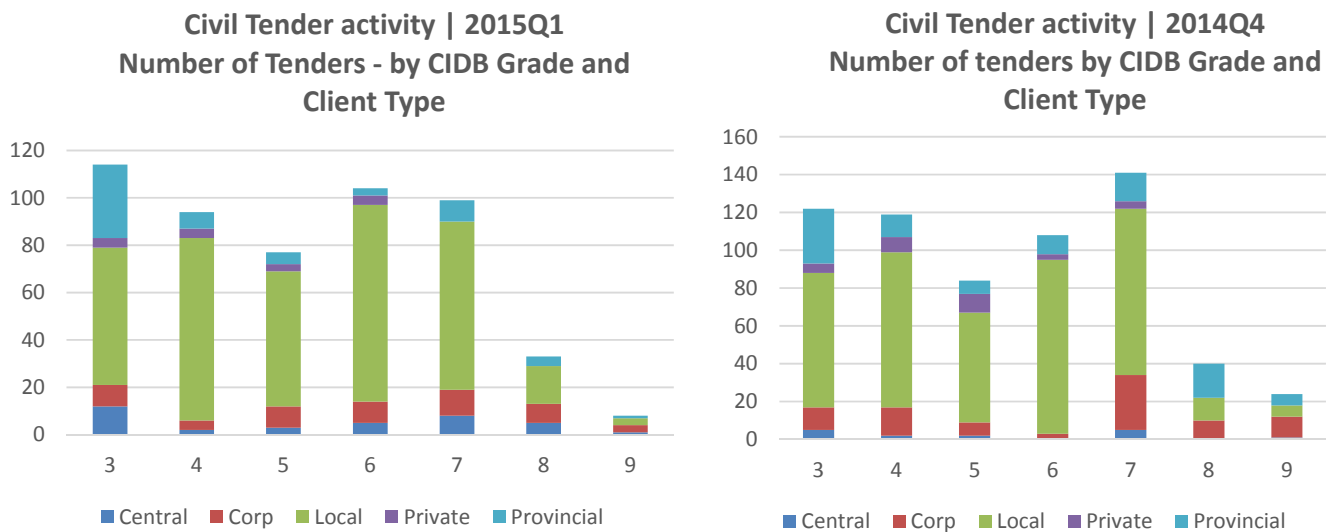


Table 13: Civil Tender activity by known CIDB grade (Source: Industry Insight Project Database, Databuild)

Year, Quarter	3	4	5	6	7	8	9	Total
201201	211	146	95	92	72	28	14	658
201202	218	112	77	91	112	39	12	661
201203	261	170	120	130	123	43	15	862
201204	198	185	134	155	76	39	10	797
201301	246	123	97	106	59	31	9	769
201302	316	153	132	120	102	31	7	671
201303	239	188	152	173	109	30	15	906
201304	175	124	101	139	111	68	24	742
201401	180	158	108	113	92	33	9	693
201402	220	136	126	124	120	49	24	799
2014Q3	190	150	123	138	123	39	19	782
2014Q4	122	121	84	108	141	41	24	641
2015Q1	114	95	79	105	99	33	8	533

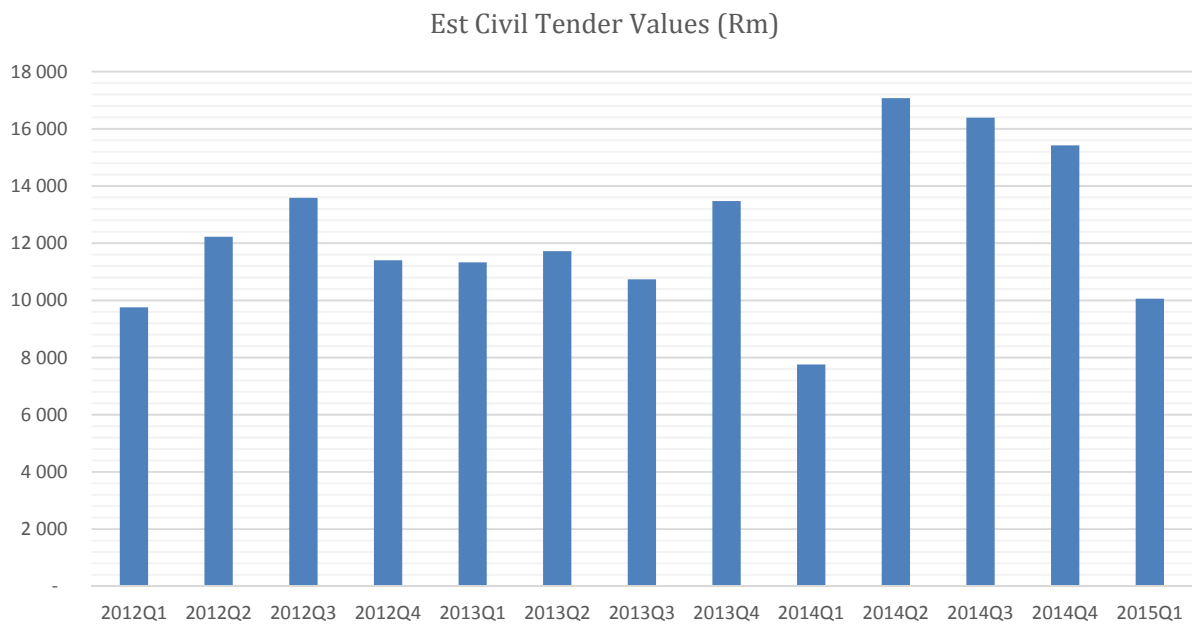


Figure 15: Estimated Tender Values (RM)

Table 14: Estimated civil tender values, by project type, by quarter (Rm, current prices- not adjusted for inflation)

	Air	Bridges	Civil Other	Power	Rail	Road	Water	Grand Total	Y-Y Per. Change (Nominal)
2012Q1	12	206	244	610	-	4,289	4,399	9,759	
2012Q2	-	87	549	404	16	4,919	6,247	12,223	
2012Q3	11	194	289	765	235	6,625	5,466	13,585	
2012Q4	-	197	498	778	13	6,392	3,527	11,404	
2013Q1	-	125	668	548	-	6,378	3,614	11,333	16.1%
2013Q2	24	107	1,023	578	184	5,153	4,658	11,726	-4.1%
2013Q3	18	102	205	334	0	5,676	4,403	10,738	-21.0%
2013Q4	4	73	185	288	-	9,662	3,261	13,473	18.1%
2014Q1	-	287	423	285	9	3,886	2,871	7,760	-31.5%
2014Q2	4	232	432	456	97	8,270	7,584	17,074	45.6%
2014Q3	129	211	534	600	121	8,174	6,620	16,389	52.6%
2014Q4	-	306	489	366	104	7,668	6,489	15,421	14.5%
2015Q1	16	192	553	455	152	4,205	4,486	10,059	29.6%

Source: Industry Insight Project Database, Databuild

Awards

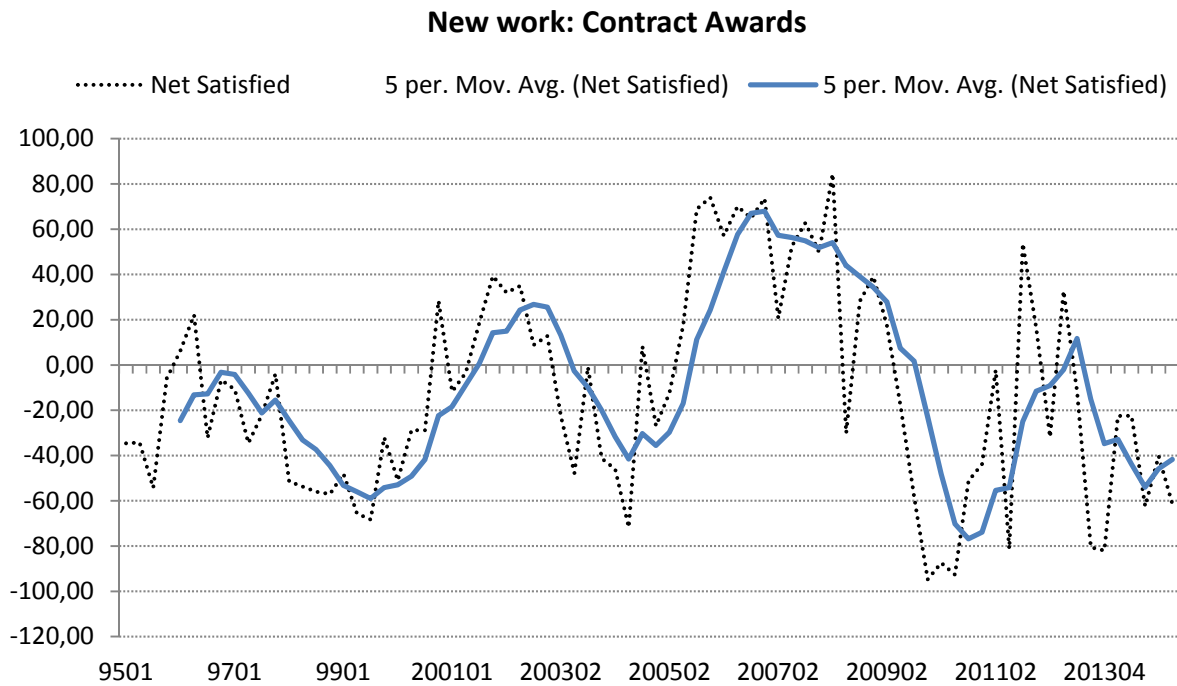


Figure 16: Opinions related to Awards

Contractors remained negative in terms of the awarding of contractors, with the nett % satisfaction rate deteriorating to -61.3 in the 1st quarter from -40.3 in the previous quarter. Close to 80 percent (76.9 percent) reported low value of contracts awarded in the current quarter. The nett satisfaction rate has been in negative territory since 2013, and is unlikely to recover in the medium term.

According to the value of projects awarded in the first quarter of 2015 conditions are not as depressed as reported by contractors. The real value of civil contracts awarded increased by 12 percent y-y in the 1st quarter of 2015, vs a 33 percent contraction in the value of building contracts awarded. This translates to an overall contraction of 15 percent in the value of all construction projects (building and civil) awarded.

Smoothed over a 5 quarter period, the real value of civil projects awarded is still 4 percent lower compared to the same period in 2014, and the value of building projects awarded has increased by 22 percent. The annual growth rate in building projects awarded has slowed considerably over the last few quarters, while the rate of decline in the value of civil projects awarded has slowed.

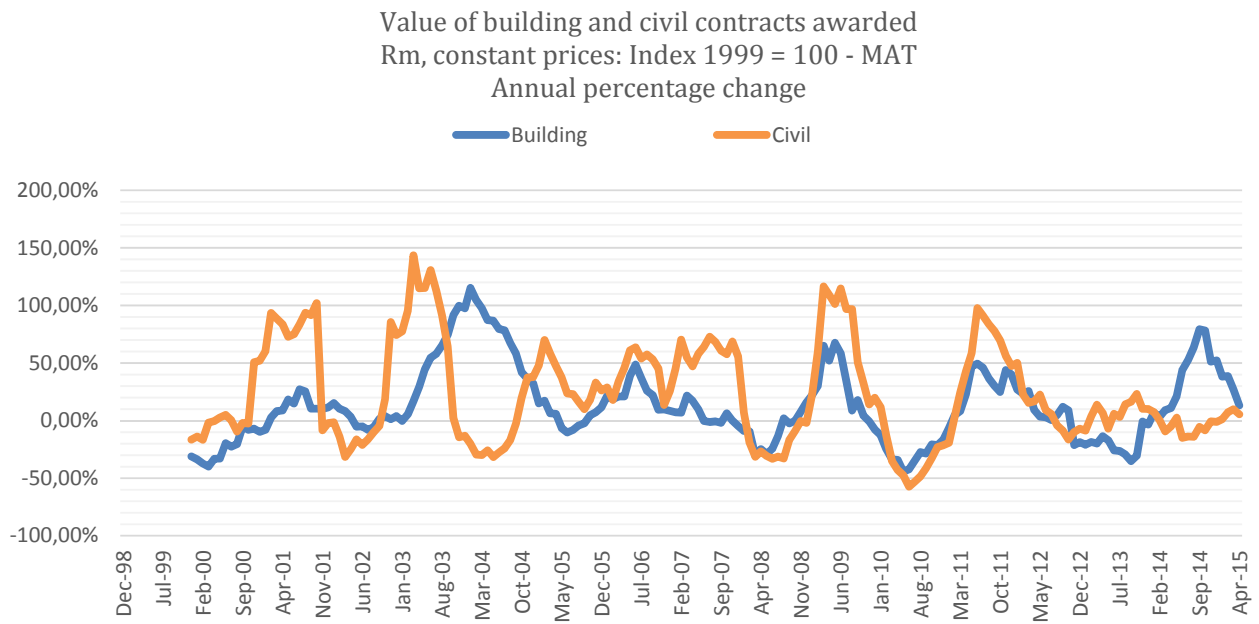
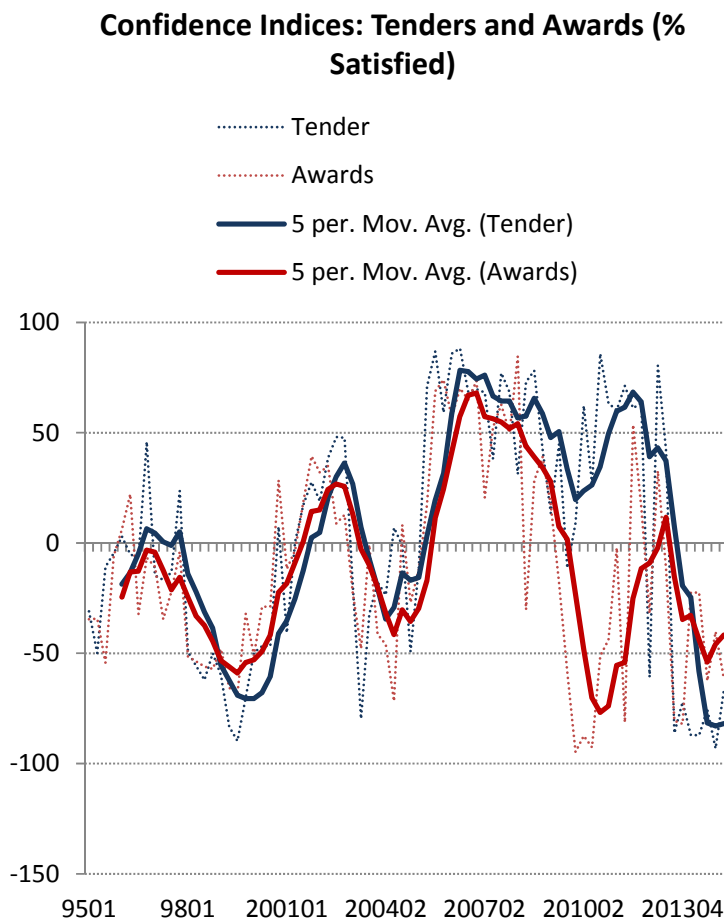


Figure 17: Real value of construction projects awarded

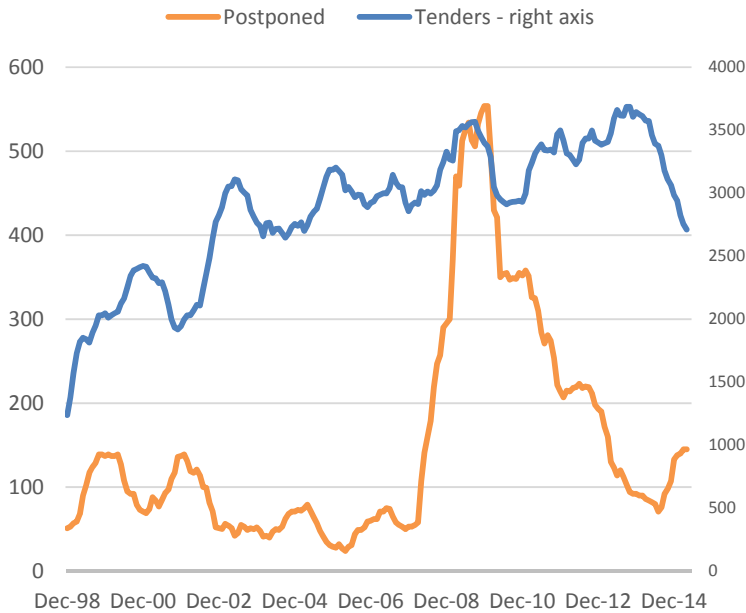


Awards and Tender sentiment remains weak

Sentiment towards awards and tenders remained weak, and although there has been some improvement in opinions related to awards (to being less negative), sentiments towards tender activity remains specially depressed.

Without an improved outlook in terms of sentiments towards tender activity, the outlook for the civil industry will remain negative in terms of growth prospects.

CIVIL (TOTAL) PROJECTS OUT TO TENDER VS POSTPONEMENTS MAT



Projects postponed

The number of civil projects placed on hold increased by 44,6 percent in 2014 compared to 2013, with a notable acceleration from mid-2014 onwards, shortly after the finalisation of the 2014 National Elections.

Although tender activity generally slowdown after an election period (as seen in 1999, 2004, 2009 and 2014), by on average between 15 percent and 20 percent, the contraction in 2014/15 is the strongest year on year decline since 1999, and is worsened by the simultaneous increase in the number of projects being held back.

The year started off with a 150 percent y-y increase in the number of civil projects postponed in the 1st quarter.

Figure 19: Projects postponed

CAPACITY UTILISATION AND PLANT EQUIPMENT

Capacity utilisation in terms of general plant and resources recovered deteriorated again in the 1st quarter, as 36,3 percent reported utilisation rates of between 51 percent and 75 percent. Close to 5 percent reported utilisation of less than 50 percent, while 6,5 percent experienced high utilisation of more than 90 percent.

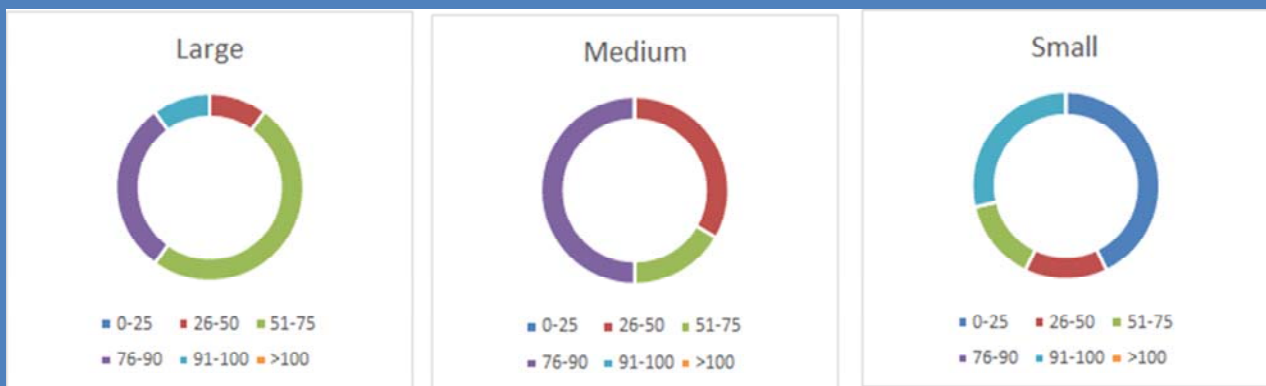
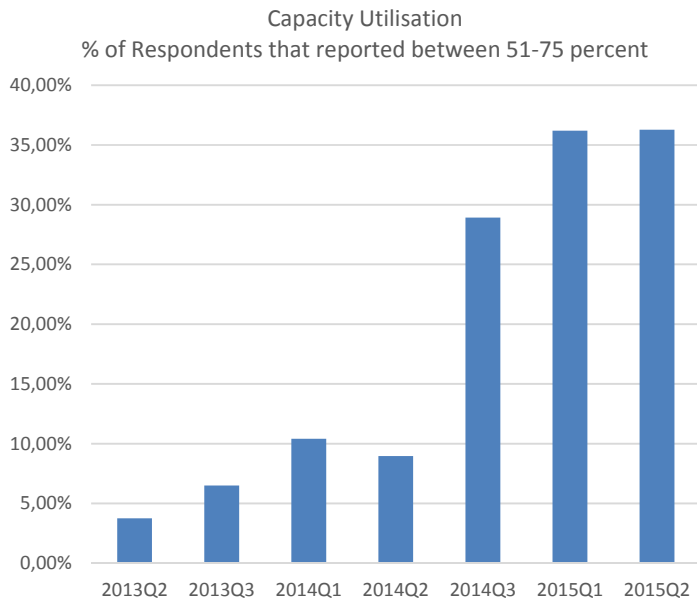


Figure 18: Capacity Utilisation by firm size



An increasing number of contractors are reporting lower capacity utilisation rates of between 51 percent and 75 percent.

The percentage of plant equipment that was standing idle at less than 25 percent increased to 77,4 percent (from 56,7 percent in the previous survey) suggesting fewer plant was standing idle. 16,3 percent reported that between 26 and 50 percent of plant was standing idle, from 43,3 percent in the previous survey. However around 20 percent of the larger firms said that more than 50 percent of their plant was idle in the 1st quarter of 2015, compared to zero percent in the previous survey.

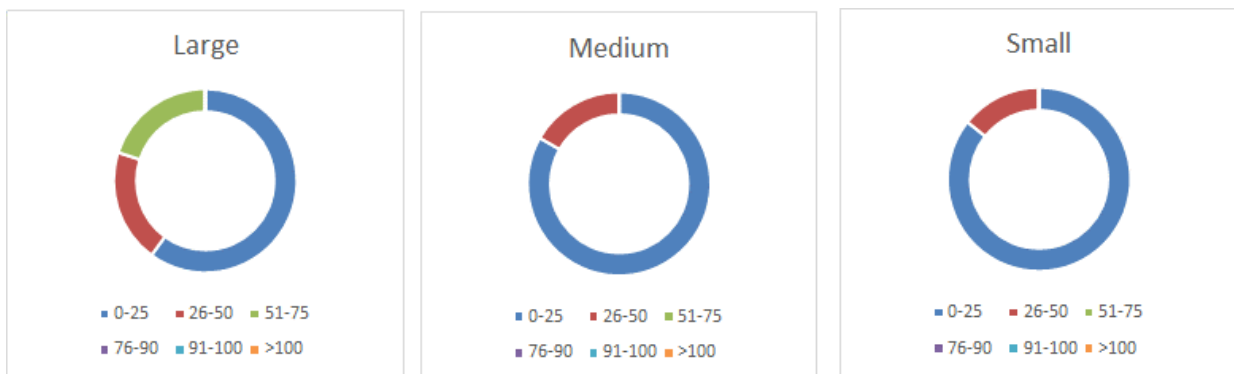
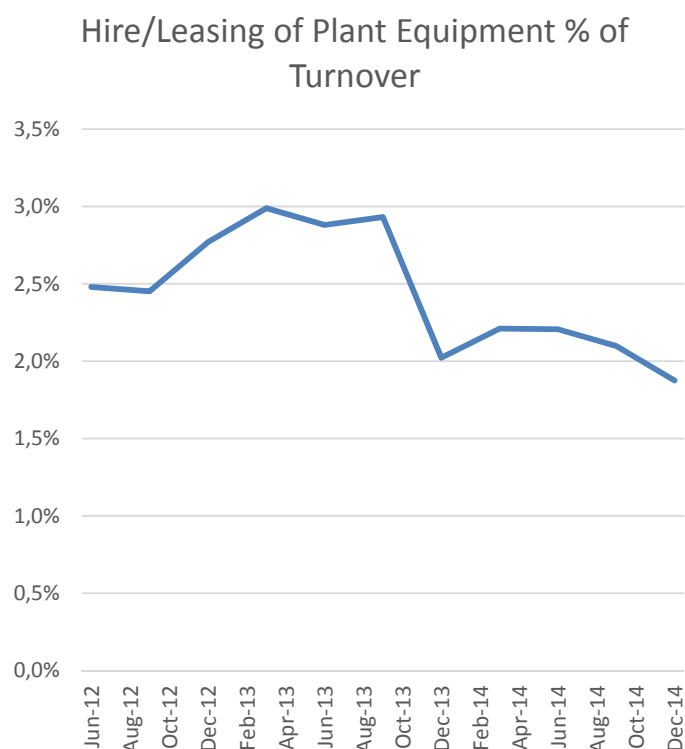


Figure 20: Percentage of company's internal plant idle, by firm size

Firms spent around 9 percent y-y less on hiring and leasing of equipment during 2014 compared with the previous year, according to estimates provided by Stats SA (Publication P0044). According to Stats SA approximately 2,1 percent of turnover was spent on hiring and leasing of plant equipment in 2014. Smaller firms invested in plant and equipment during 2014, increasing expenditure by 15,6 percent to R356 million (or 0.6 percent of turnover), while larger and medium size enterprises cut spending by 1 percent and 20 percent respectively.

Hire/Leasing of Plant Equipment					Hire/Leasing plant equipment % of Turnover				
Construction industry					Construction industry				
	Large	Medium	Small	Total		Large	Medium	Small	Total
	> R182 million	R42 million to R182 million	R2 million to R42 million			> R182 million	R42 million to R182 million	R2 million to R42 million	
Jun-12	900	758	51	1.709	Jun-12	2.1%	5.1%	0.4%	2.5%
Sep-12	804	855	92	1.751	Sep-12	2.0%	5.1%	0.6%	2.5%
Dec-12	935	875	76	1.886	Dec-12	2.4%	6.0%	0.5%	2.8%
Mar-13	863	972	58	1.893	Mar-13	2.5%	6.3%	0.4%	3.0%
Jun-13	1,159	865	99	2,123	Jun-13	2.8%	5.2%	0.6%	2.9%
Sep-13	1,020	1,005	105	2,130	Sep-13	2.5%	6.3%	0.6%	2.9%
Dec-13	975	667	46	1,688	Dec-13	2.4%	3.4%	0.2%	2.0%
Mar-14	866	782	32	1,680	Mar-14	2.3%	4.7%	0.1%	2.2%
Jun-14	957	716	70	1,743	Jun-14	2.3%	4.1%	0.3%	2.2%
Sep-14	947	776	55	1,778	Sep-14	2.4%	4.2%	0.2%	2.1%
Dec-14	1,208	530	199	1,937	Dec-14	2.6%	2.3%	0.6%	1.9%

Figure 21: Hire/Leasing of Plant Equipment (Total construction), source Stats SA Quarterly Financial Statistics)





Firm Size market segmentation

Opinions and sentiment are categorised by firm size, based on reported work force including permanent and limited duration employment.

Results for various indicators are shown here, summarised by firm size.

- Working conditions for next quarter
- Competition for tenders
- Tender prices
- Profitability
- Profitability – Trend
- Capacity Utilisation
- Plant Idle

Turnover and Employment

According to responding contractors, turnover increased by 6 percent q-q in the 1st quarter of 2015, supported mainly by robust growth in turnover by medium and smaller size firms. Turnover for 2014 is estimated to have increased by 2,6 percent y-y in nominal terms, but if construction cost is taken into consideration, real turnover fell by an estimated 2,5 percent y-y in 2014 and by 10,0 percent in 2013.

An increasing number of firms were of the opinion that turnover in the 1st quarter was low (46,2 percent compared to 29 percent in the previous survey). Less than 1 percent of contractors were of the opinion that turnover was good during the period under review.

Turnover is not expected to increase in real terms over the short to medium term, based on current movement in key economic indicators, the contraction in the value of civil contracts awarded last year, the overall slowdown in the number of contracts out to tender accompanied by an increase in the number of civil projects placed on hold/cancelled and the cut in projected infrastructure expenditure by government and state owned enterprises announced in the 2015/16 Budget.

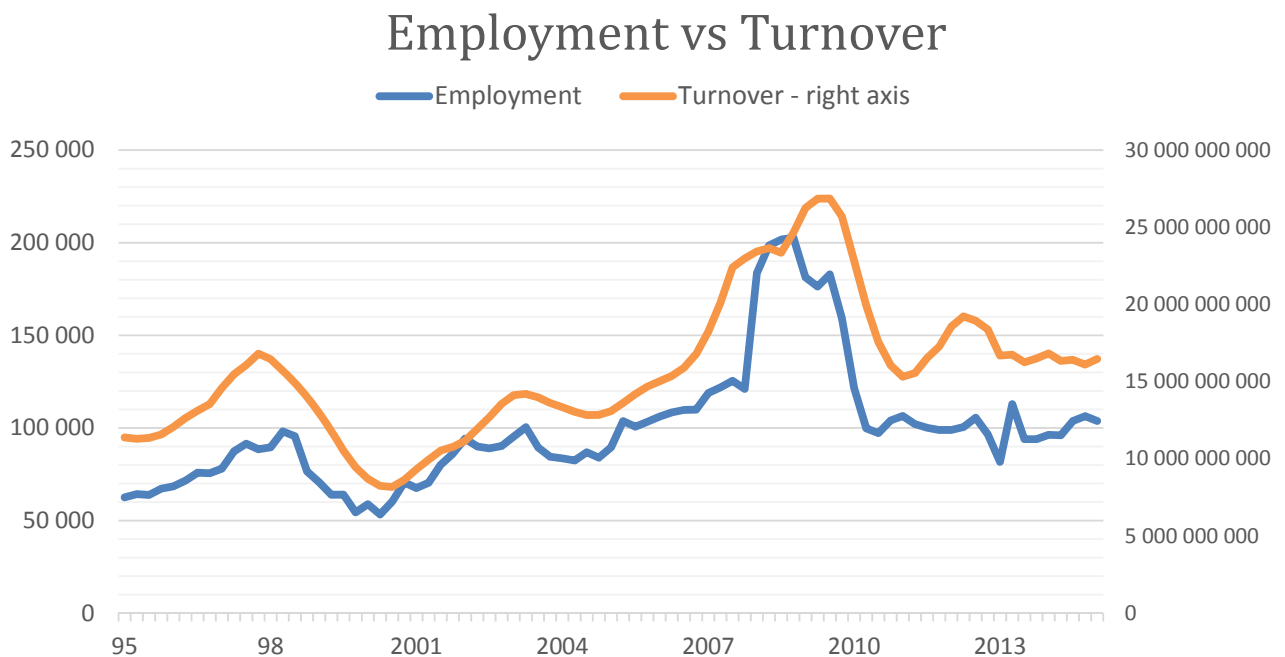


Figure 22: Civil Industry Employment vs Turnover, 2012 prices

Construction cost inflation accelerated to an average of 5,3 percent in 2014 compared to 5,7 percent in 2013, and is expected to moderate to an annual average increase of 4,1 percent in 2015, before accelerating to 7,3 in 2016. Price pressures are expected to ease somewhat in 2015 mainly due to the moderating effect of the lower oil price and lower consumer price inflation.

Table 15: Actual and Expected Turnover trends

	<i>Turnover Nominal</i>	<i>% Change (Nominal)</i>	<i>Turnover 2000=100</i>	<i>% Change (Real)</i>
1995	7 653 130 803		11,751,401,745	
1996	9 864 977 221	28.9%	13,548,444,351	15.3%
1997	13 282 356 448	34.6%	16,806,228,721	24.0%
1998	11 680 899 837	-12.1%	13,987,962,456	-16.8%
1999	8 600 472 761	-26.4%	9,455,575,722	-32.4%
2000	8 669 595 494	0.8%	8,639,968,534	-8.6%
2001	11 723 000 614	35.2%	10,762,140,678	24.6%
2002	17 138 501 083	46.2%	13,564,355,097	26.0%
2003	17 701 840 728	3.3%	13,621,980,350	0.4%
2004	17 180 281 073	-2.9%	12,844,628,262	-5.7%
2005	20 999 901 277	22.2%	14,682,985,873	14.3%
2006	25 783 535 490	22.8%	16,786,189,738	14.3%
2007	38 084 310 982	47.7%	23,146,856,716	37.9%
2008	58 063 639 993	52.5%	28,955,855,614	25.1%
2009	51 147 261 584	-11.9%	25,857,399,665	-10.7%
2010	32 744 103 366	-36.0%	16,140,361,470	-37.6%
2011	36,888,136,573	12.7%	17,366,815,461	7.6%
2012	40,952,061,358	11.0%	18,449,854,654	6.2%
2013*	38,920,982,014	-5.0%	16,505,163,586	-10.1%
2014*	39,941,145,748	2.6%	16,167,182,556	-2.5%
2015 *	41,538,791,578	4.0%	16,151,652,122	-0.1%
2016	41,331,097,620	-0.5%	14,977,533,887	-7.3%
2017	40,297,820,180	-2.5%	14,274,775,699	-4.7%

*Provisional Figures

Table 16: Employment, Contract Awards, Turnover and Salaries and Wages

	Employment	Turnover (nominal)	Salaries and Wages (nominal)
2009	174 927	51 147 261 584	11 318 888 989
2010	105 591	32 744 103 366	7 246 270 075
2011.1	106 463	8 014 928 510	1 773 703 679
2011.2	102 079	8 600 000 000	1 903 180 000
2011.3	100 037	10 187 541 740	2 254 502 987
2011.4	98 837	10 085 666 323	2 231 957 957
2011	101 854	36 888 136 573	8 163 344 624
2012.1	98 837	11 324 591 712	2,506,132,146
2012.2	100 497	10,456,138,926	2,313,943,544
2012.3	105 522	9,933,331,979	2,198,246,367
2012.4	105 522	9,237,998,741	2,044,369,121
2012	96502	40,952,061,358	9,062,691,178
2013.1	81651	7,944,678,917	1,758,157,444
2013.2	112823	11,122,550,484	2,461,420,422
2013.3	93894	9,454,167,911	2,092,207,359
2013.4	93894	10,399,584,702	2,301,428,095
2013	95565	38,920,9982,014	8,613,213,320
2014.1	96241	9,255,630,385	2,048,271,004
2014.02	96048	10,643,974,943	2,355,511,655
2014.03	103732	10,111,776,196	2,237,736,072
2014.04	106326	9,929,764,224	2,197,456,823
2014	100587	39,941,145,748	8,838,975,554
2015.01	103774	10,525,550,078	2,526,132,019

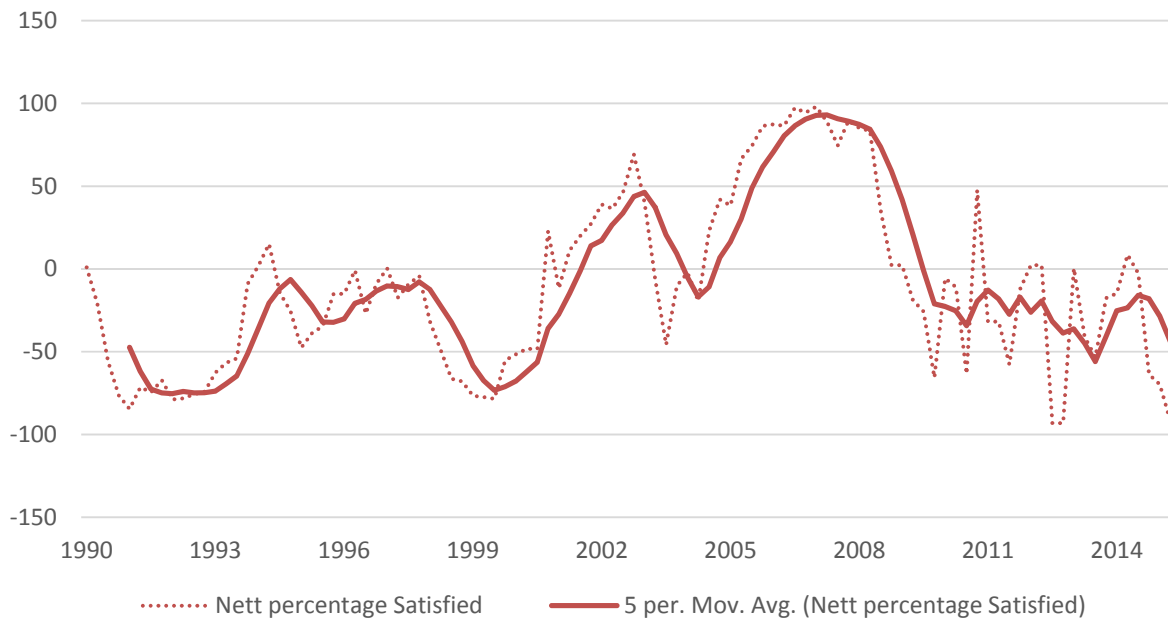
Confidence Index

The quarter on quarter movement in the index has been more erratic lately, but after some improvement in the last few quarters, brought about by a more optimistic outlook from medium size contractors, the trend has reversed, showing signs of another weakening.

Explanatory note: The civil engineering confidence index relates to the overall business outlook amongst the companies within the industry. Levels below the 50-mark indicate pessimism, 0 equals total negativity, and 100 indicates absolute optimism. This is a continuously changing weighted index.

Civil Engineering Confidence Index

Nett Percentage Satisfied (Weighted)



Culminating all the other indicators already discussed, the nett satisfaction rate deteriorated to -92.0 in the 2nd quarter of 2015, from -70.0 and -64.0 in the previous two surveys. The current trend surpasses even the negative sentiment expressed by contractors in the slowdown that followed in 2009. Smoothed over the last five quarters, the nett satisfaction rate deteriorated to -44.0 in the 2nd quarter from -28 and -18.0 in the previous two surveys.

The poor state of affairs in terms of industry confidence is supported by the FNB/BER civil industry confidence index. Although the FNB/BER confidence index improved to a level of 59 in the last quarter of 2014, the index fell sharply in the 1st quarter 2015, supporting the results of this survey. The main difference between the SAFCEC confidence index and the FNB/BER is the fact that the SAFCEC responses are weighted according to firm size. Thus while the indices may be at a different level, the trends are very similar and clearly shows the depressed conditions currently being experienced in the civil industry. The SAFCEC confidence index is recalculated here to show the percentage satisfied as opposed to the nett percentage satisfaction rate, as shown in the chart above.

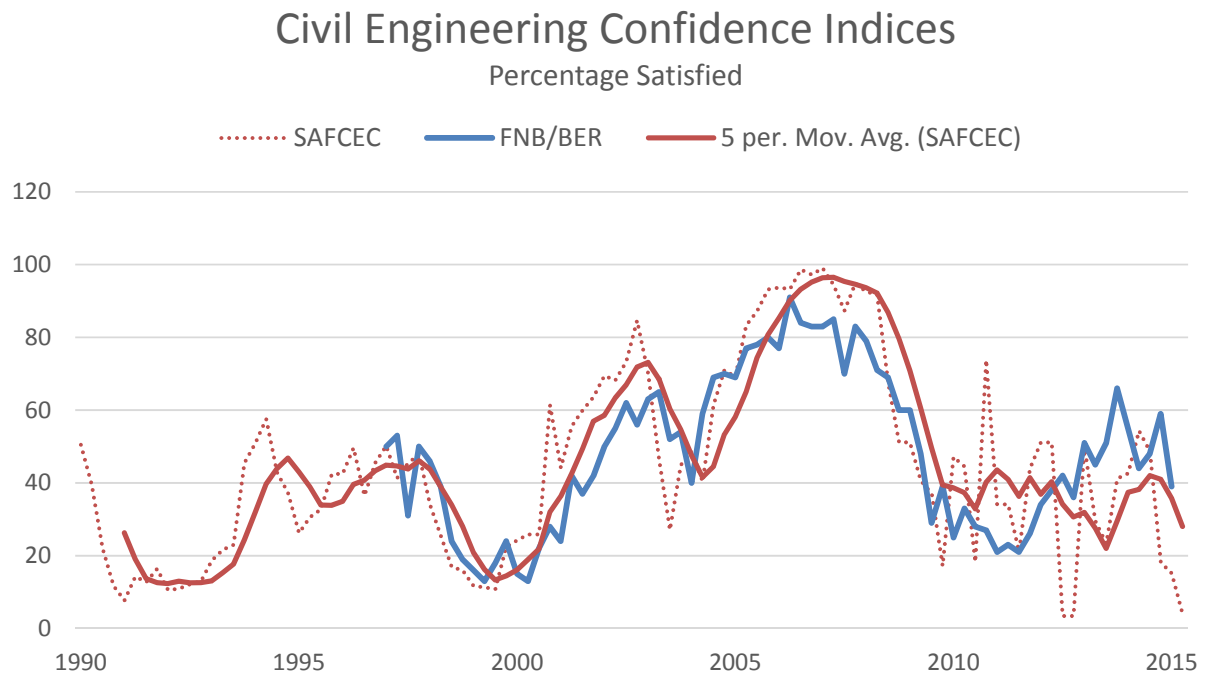
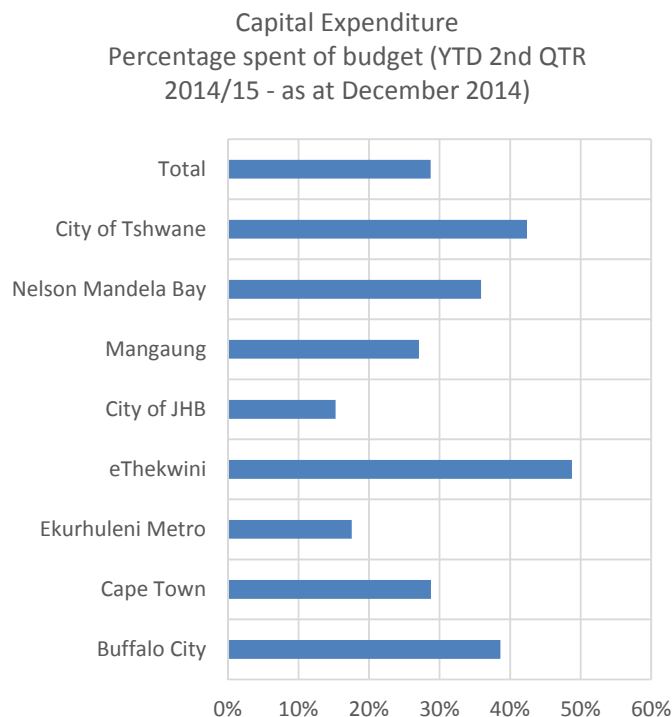


Figure 23: FNB/BER Confidence index vs SAFCEC Confidence Index

Key issues affecting current confidence levels in the industry:

- Slow roll out of public sector infrastructure projects, including the delays to implement the targets as set out in the National Development Plan, aggravated by cuts in projected infrastructure expenditure allocations which was announced in the 2015/16 Budget, has resulted in negative growth projected over the medium term expenditure framework period (2015/16 to 2017/18)
- Delays in SANRAL's ability to roll out road contracts due to the ongoing e-toll dispute, will have a serious impact on the industry, considering the high contribution of the road segment to industry turnover.
- Skills shortages in procurement which also include government's ability to implement proper project planning and implementation. It is also critical to shorten the delay between tender and awards which could take as long as one year.
- The inability of certain local and district municipalities to spend allocated budgetary allocations, which also suggest inadequate skills in planning and budgetary management. Metro's spent less than 30 percent of their capital budgets by the end of the 2nd quarter 2014/15.
- Another concern is where client bodies seem to be interfering with the role and responsibility of the designated engineer or principle agent.
- Low confidence in the mining sector is delaying private capital expenditure
- Continued labour unrest affecting economic performance as well as critical project execution
- Payment is becoming a more serious concern as payment delays should (in theory) not exceed 30 days while there has also been an increase in the number of disputes reported. Payment delays may also be linked to certification disputes.
- The tendency by government to break what should be larger Grade 9 projects, into smaller grade projects



Metropolitan Councils spent less than 30% of their capital budgets by the end of the 2nd quarter 2014/15, which effectively translates to an under spending of R7 billion. The worst performing metro's are Ekurhuleni and City of JHB.

Slow spending of conditional grants are attributed to ineffective project management skills, delays in procurement processes, and limited capacity in specifically the engineering field.

Source: Local government revenue and expenditure: 2nd quarter 2014/15,

Section 71 Report

PROSPECTS FOR 2015 and 2016

What can we expect in the next 12 to 24 months

- There is more muted outlook for public sector expenditure on infrastructure in the next three years, following a downward adjustment in growth estimates, as announced in the 2015/16 Budget. Growth is projected to average 0,5 percent in nominal terms over the 3 year forecast period. Public Sector infrastructure as a percentage of GDP, targeted to reach 10% by 2030, is projected to fall back to 5,4 percent by 2017/18.
- Weak economic growth, and possible further downward revisions to GDP growth for this year, will further erode funds allocated for infrastructure expenditure.
- There are several risks to the economy most paramount the views expressed by credit rating agencies on South Africa's ability to manage its current account deficit and electricity crisis.
- South Africa is further faced by the conundrum that close to 40 percent of bonds are held by foreigners increasing our vulnerability to currency volatility and worsening the impact should SA face a further downgrade by credit rating agencies.
- The pending interest rate hike, expected to be announced by the US Federal Reserve in the next 6 to 12 months, will have a negative impact on the currency unless South Africa also raises interest rates. In an already ailing economy, with excessive unemployment, this will be detrimental. This raises the question whether or not interest rates are deemed as a monetary policy to control money supply and manage inflation or to protect the currency?

- SOE's infrastructure programmes are being delayed due to financial constraints as tariff increases are deemed as insufficient to finance pipeline projects. As the completion of Medupi and Kusile nears completion, there are no new pipeline projects ready for roll out by Eskom to fill the void in the next three years. Implementation of renewable energy projects identified in the 3rd and 4th window, may be delayed as Eskom struggles to connect existing renewable projects to the grid.
- Private sector confidence remains elusive, not sufficient to stimulate renewed investment growth. This combined with policy uncertainty in the mining sector and labour tensions in the mining sector will continue to delay much needed infrastructure spending.

The start of 2015 posed many challenges, foremost the regular supply interruption of electricity as Eskom embarked on national load shedding, which was shortly thereafter accompanied by threats of strike action by not one, but seven labour unions. Nhlanhla Nene (Minister of Finance) may have expected a 2,2 percent increase in GDP in 2015, but electricity interruptions together with potential strike action by the Public sector, an increase in personal income tax (for the first time in 20 years), looming potential downgrade by credit rating agencies and the US Federal Reserve preparing to hike interest rates, are all deemed as aggravating conditions, that could have a serious negative impact on GDP growth this year.

Developments that could shape the industry in 2015:

- Promulgation of the SEZ act by Minister of Trade and Industry hopefully in the first half of 2015, will add further incentive for the private sector to partake in infrastructure development earmarked by the Special Economic Zones, including the Saldanha Bay IDZ where construction has already started.
- Further developments in renewable energy generation could not only boost dwindling energy supplies, but provide much needed turnover in the civil industry, whilst supporting job creation, albeit at moderate levels. The civil industry's exposure to the renewable sector is modestly estimated at between 15 percent and 20 percent.
- Several large residential developments recently announced could support growth in the civil engineering construction sector including earthworks, roads construction as well as infrastructure associated with water and sanitation, for example the proposed R11 billion Vaal River City, to be constructed along the Vaal River, Steyn City, and the proposed Modderfontein development. Even housing developments announced by government, should consider the impact on the surrounding infrastructure and take adequate measures to ensure the infrastructure can cope with the anticipated increase in demand. According to Irene Main, a representative for the Vaal Dam, inadequate planning and the fact that municipal departments are not catering for the necessary infrastructure is a major concern and happens not only in and around the Vaal Dam, but across the country as a whole.
- With greater focus on Water and Sanitation, as water resources are quickly drying up, it is likely that additional funding will be allocated towards water resource management and infrastructure. Government has already announced that an additional six new dams will be constructed over the next decade, while the South African government is preparing a draft law to force municipalities to devote 15 percent of their annual budgets for the maintenance and operation of water infrastructure. This will be some challenge as

water expenditure (excluding waste water management) in Metropolitan Councils is currently around 9 percent of total expenditure (or R17,5 billion), according to the 2014/15 revenue and expenditure report. Furthermore the Water Services Operating and Transfer Subsidy grant (WSOS) was noted as the lowest performing grant as reported by municipalities in the first two quarters of the 2014/15 financial period.

- The alignment process of the Construction Sector Charter with the revised Codes of Good Practice has already started and the implementation date has been extended from May 2015 to October 2015. The revised codes include fewer elements (five as opposed to seven), but with more stringent targets and the added penalty of discounting points where targets are not being complied with. Thus far no agreement has been reached between labour and business, which is why it is important that members understand the implication of adopting the generic codes. Government aims to develop a central supplier database as well as centralise procurement. If not properly implemented it could lead to large scale delays in the adjudication of tenders.
- Accessing tender information will be made more accessible through the development of the e-tender system.

CIVIL ENGINEERING PRICE MOVEMENTS

Input cost price movements based on the Baxter contract price adjustment formula (CPAF) averaged 5,3 percent 2014, compared to 5,7 percent in 2013. In the first three months of 2015, input costs recorded negative inflation of -0,4 percent y-y. Contributing factors include the 34 percent drop in the fuel index, and a -0,7 percent contraction in the composite material index. Pending further developments in the oil price and currency vulnerability, we expect the composite index to moderate to an average of 4,1 percent in 2015 before accelerating to 7,3 percent in 2016. Our assumptions include a recovery in the oil price to an average of \$77/barrel in 2016 and further depreciation in the currency, averaging R13.3/US Dollar. These developments and the impact on input cost construction will be close monitored.

The Baxter Contract price Adjustment formula (or CPAF), is widely recognised by the industry as an accepted set of indices to adjust contracts for payment escalation. However, it is important to clarify that these set of indices are freely available and published by Statistics South Africa and is not owned or manipulated by SAFCEC in any way

Table 17: CPAF Indices Annual Percentage Change

Year	Material (SAFCEC)	Fuel (SAFCEC)	Plant (SAFCEC)	Labour (CPI)	Composite
2013	4.3%	7.4%	6.3%	5.8%	5.7%
2014	3.1%	9.5%	7.6%	6.3%	5.3%
2015*	3.8%	-6.4%	7.0%	4.5%	4.1%
2016*	3.5%	21.0%	10.0%	5.7%	7.3%

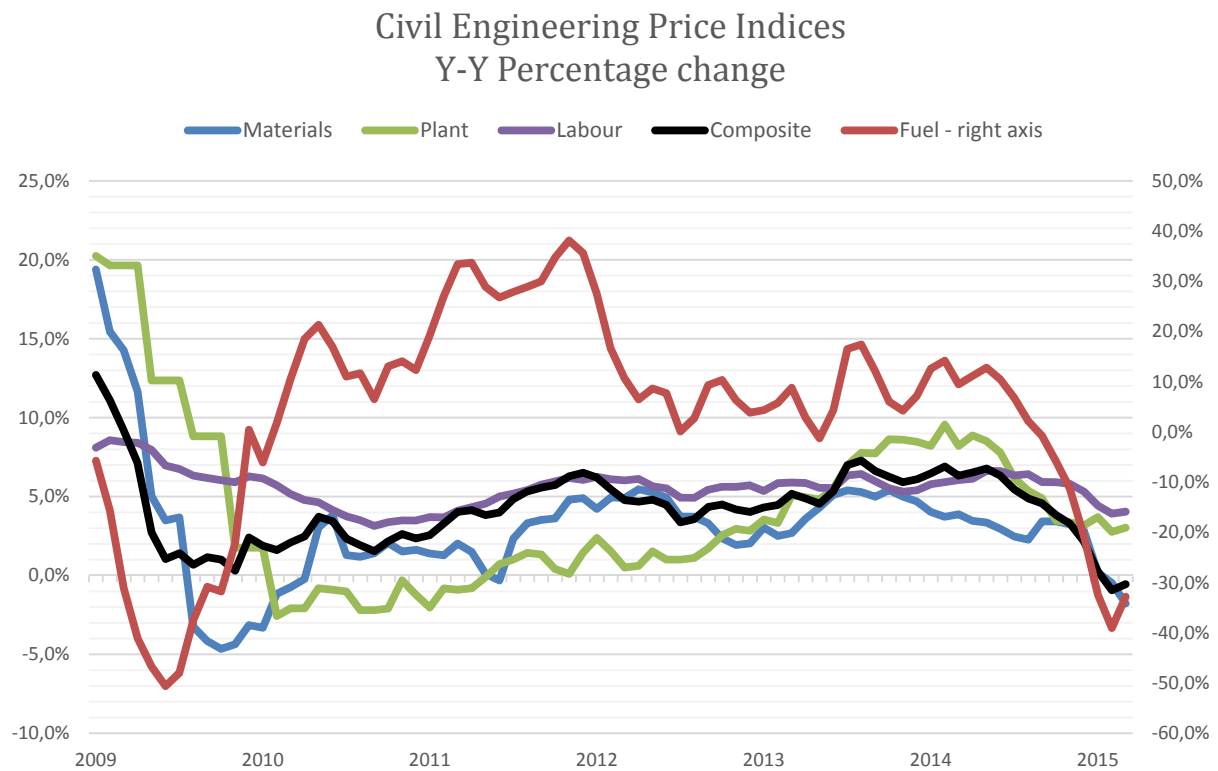


Figure 24: Civil Engineering price movements (source Stats SA)

Table 18: Macro Price Assumptions

	2012	2013	2014	2015	2016	2017
R/US\$ Exchange Rate	8.2	9.7	11.3	12.1	13.3	12.6
Oil price (\$ per barrel, UK Crude oil)	111.8	108.0	80.0	70.0	77.0	84.7
Oil Price (ZAR per barrel)	917.9	1042.2	904.0	846.4	1024.1	1070.2
CPI (% change)	5.7%	5.8%	6.1%	4.5%	5.7%	5.3%

Table 19: CPAF Indices Forecast 2012-2017

<i>Index 2012= 100</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>
Plant	100.0	106.3	113.1	121.0	133.1	126.4
Fuel	100.0	107.2	110.6	103.5	125.2	130.9
Materials	100.0	104.3	107.7	111.8	115.7	119.9
Labour	197.2	208.5	221.2	231.1	244.3	257.2
Composite	129.1	136.4	143.6	149.5	160.5	164.2
Y-Y Percentage Change						
Plant	1.6%	6.3%	6.4%	7.0%	10.0%	-5.0%
Fuel	8.8%	7.2%	3.1%	-6.4%	21.0%	4.5%
Materials	3.9%	4.3%	3.3%	3.8%	3.5%	3.7%
Labour	5.7%	5.8%	6.1%	4.5%	5.7%	5.3%
Composite	4.5%	5.7%	5.3%	4.1%	7.3%	2.3%

Table 20: CPAF Indices (Quarterly Average)

Year	Quarter	CPAF Indices 2012=100					Y-Y Inflation				
		Materials	Labour	Fuel	Plant	Composite	Materials	Labour	Fuel	Plant	Composite
2011	1	95.2	182.2	84.1	97.4	120.8	1.6%	3.8%	26.7%	-1.3%	3.3%
	2	95.0	185.5	94.0	98.4	123.1	0.4%	4.6%	29.8%	-0.1%	4.0%
	3	96.7	188.4	91.1	99.1	124.4	3.1%	5.5%	28.9%	1.3%	5.2%
	4	98.0	190.4	98.5	98.4	125.9	4.4%	6.1%	36.2%	0.6%	6.2%
2012	1	99.6	193.3	99.0	98.9	127.5	4.7%	6.1%	17.8%	1.5%	5.5%
	2	100.0	196.2	101.2	99.5	128.8	5.2%	5.8%	7.6%	1.0%	4.6%
	3	100.1	198.0	94.8	100.4	129.0	3.6%	5.1%	4.1%	1.3%	3.8%
	4	100.1	201.1	105.1	101.2	131.2	2.1%	5.6%	6.8%	2.8%	4.2%
2013	1	102.4	204.4	105.3	102.8	133.4	2.7%	5.7%	6.3%	4.0%	4.7%
	2	104.3	207.2	103.1	104.5	135.1	4.3%	5.7%	1.9%	5.1%	4.9%
	3	105.4	210.4	109.2	107.9	138.0	5.2%	6.2%	15.3%	7.5%	7.0%
	4	105.1	212.0	111.3	109.8	139.2	5.0%	5.4%	5.8%	8.6%	6.1%

2014	1	106.3	216.5	118.0	111.7	142.1	3.9%	5.9%	12.1%	8.7%	6.6%
	2	107.7	220.6	115.0	113.3	144.0	3.3%	6.5%	11.5%	8.4%	6.5%
	3	108.2	223.5	112.1	113.8	144.9	2.7%	6.2%	2.7%	5.5%	5.0%
	4	108.5	224.0	97.1	113.5	143.5	3.2%	5.7%	-12.7%	3.3%	3.1%
2015	1	105.6	225.4	77.0	115.2	141.6	-0.7%	4.1%	-34.7%	3.2%	-0.4%
	2*	111.8	230.1	104.0	120.2	149.0	3.8%	4.3%	-9.6%	6.1%	3.5%
	3*	112.4	226.4	102.8	122.1	148.6	3.9%	1.3%	-8.3%	7.2%	2.5%
	4*	112.4	235.0	102.4	123.0	151.3	3.6%	4.9%	5.4%	8.4%	5.4%
*forecast											

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Annexure A

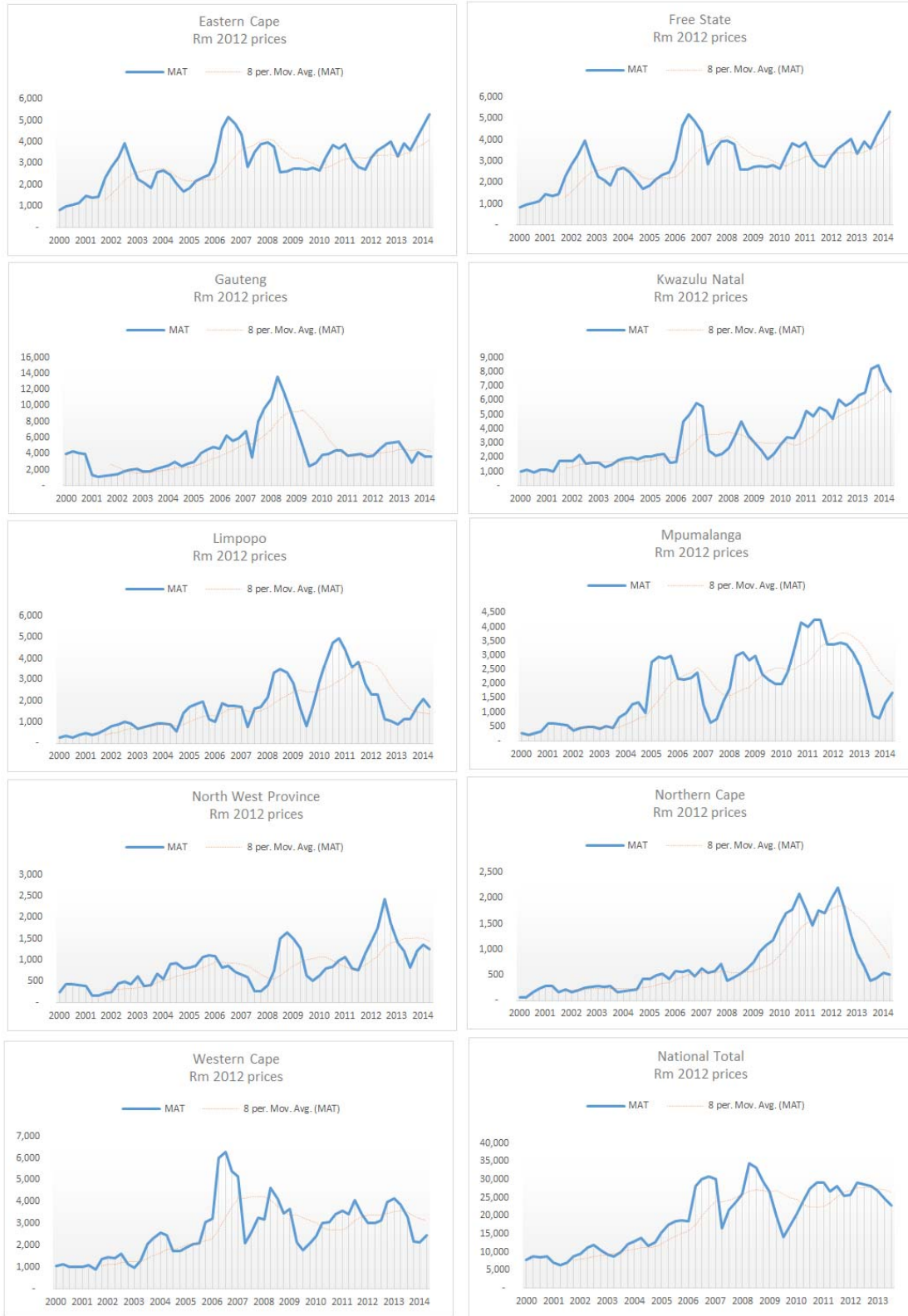


Figure 25: Provincial Trends