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AN INDUSTRY ANALYST'S POINT OF VIEW

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"UK CONSTRUCTION COMPANIES HAVE LOST THEIR WAY"

In December 2016 Think BIG Partnership issued its Construction Industry Report ("UK Construction Consolidation 2017-2022 / Corporate Strategies and M&A Opportunities").

In his 'Foreword' to the Report, Sir Neville Simms, Chairman of Thames Tideway, the UK's largest infrastructure project, predicted: "British contractors are in danger of missing out on major international projects in the future if they lack the financial muscle and diversity of say a £15 billion a-year contractor to handle the more complex projects ... On the premise that future consolidation in the industry must and will take place ... [it] should lead us to a construction sector that in the future is both financially and operationally stronger".

No such consolidation has taken place, moreover it has been resisted by independent minded company boards. The industry remains fragmented and weakened not only by the demise of Carillion, but apart from a few worthy exceptions like Balfour Beatty and Morgan Sindall, most of the major UK general contractors have impaired financial positions. Meanwhile Major European counterparts have grown in size, financial, human and technical resource. The turnover of the Top Three European construction companies was three times that of the UK's Top Ten combined in 2019/20, before the impact of the Covid-19 pandemic, and the Top Three European's declared a combined Pre-tax Profit of £4.8 billion, while many UK companies struggled to break even.

These headline statistics speak volumes. Even where Major European companies incur substantial losses, like Spain's Ferrovial subsidiaries in the UK, the well-capitalised, broadly based Groups can take the blows without threat of financial collapse and project non-completion. An industry crying out for technology innovations, solutions for environmental concerns and proper risk management to perform on mega-projects of the future will demand companies with deep pockets and broad resources, as part of diversified groups, not pure thinly capitalised contractors.

One day, post Covid-19, along may come some '(wo)man' to lead the consolidation. But with Interserve in administration and Plc groups like Kier and Galliford Try forced to revert to their pure contracting roots with depleted balance sheets (and while they might currently be cheap buys) it is perhaps too late for substantive domestic M&A to rescue the future of the UK construction industry in a meaningful way. The corollary is the inevitable future domination by foreign owned diversified Majors Groups that the industry as whole will demand. Watch this space for foreign leadership, investment and M&A.

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construction consolidation report:

<https://nebula.wsimg.com/b1bbc824518c202504ba1ff201496d5b?AccessKeyId=95B6737F98B38E354D56&disposition=0&alloworigin=1>

TOP UK CONTRACTORS SUMMARY 2020

UK CONSTRUCTION COMPANIES

Latest Rank By Turnover	Latest Rank By Profit	Company	Reporting Period	Latest Turnover (£m)	Previous Turnover (£m)	Change (%)	Latest Pre-tax Profit (£m)	Previous Pre-tax Profit (£m)
1	1	Balfour Beatty Plc	Dec-19	8,405.0	7,802.0	7.7	138.0	123.0
2	99	Kier Group Plc	Jun-19	4,479.4	4,512.8	-0.7	-244.9	106.2
3	98	Interserve Plc	Dec-18	3,225.7	3,666.9	-12.0	-111.3	-244.4
4	4	Morgan Sindall Group Plc	Dec-19	3,071.0	2,972.0	3.3	88.6	80.6
5	3	Galliford Try Plc	Jun-19	2,862.5	3,132.0	-8.6	104.7	143.7
6	100	Amey UK Plc*	Dec-18	2,667.8	2,581.3	3.4	-428.0	-189.8
7	9	ISG Plc	Dec-19	2,589.7	2,237.6	15.7	44.2	27.4
8	6	Keller Group Plc	Dec-19	2,300.5	2,224.5	3.4	51.6	8.4
9	15	Tarmac Trading Ltd	Dec-18	2,129.8	2,095.9	1.6	28.7	154.9
10	12	Laing O'Rourke Plc	Mar-19	1,932.3	1,841.6	4.9	32.7	-25.2

Source: Construction Index

(Note: Balfour Beatty Pre-Tax Profit slumped to £36m in 2020, and the crises at Interserve and Amey continued. Galliford Try posted a £60m Pre-Tax Loss)

SUMMARY

Balfour Beatty is the UK largest contractor in terms of Turnover and Profit. Several of the others are struggling and continue to do so since 2019/20, exacerbated by the Covid effects on the industry. One key conclusion is that 'Size Matters' particularly in difficult times. Balfour Beatty's Turnover at US\$11.5 bn in 2019/20 compared to Europe's largest contractor-France's Vinci US\$ 51bn (22%).

Across the Top 100 UK construction companies, 48 companies either traded at a loss or suffered from reduced profitability in 2019/20, before Covid-19 hit.

The prediction is that unless there is further action to consolidate there are going to be further insolvencies. Companies had been buying work just to keep resources in play prior to Covid, and now with the effects of Covid hampering completion, costs to complete are increasing. Those companies with no debt and big cash piles will survive but others will find it very difficult.

GLOBAL & EUROPEAN COMPARISONS

Top Ten Global Construction Companies:

CHINA STATE CONSTRUCTION ENGINEERING CORP. LTD., Beijing, China
CHINA RAILWAY GROUP LTD., Beijing, China
CHINA RAILWAY CONSTRUCTION CORP. LTD., Beijing, China
CHINA COMMUNICATIONS CONSTRUCTION GROUP LTD., Beijing, China
POWER CONSTRUCTION CORP. OF CHINA, Beijing, China
VINCI, Rueil-Malmaison, Hauts-de-Seine, France
ACS, ACTIVIDADES DE CONSTRUCCION Y SERVICIOS SA, Madrid, Spain
CHINA METALLURGICAL GROUP CORP., Beijing, China
SHANGHAI CONSTRUCTION GROUP CO. LTD., Shanghai, China
BOUYGUES, Paris, France

Source: ENR

Seven of the Top Ten are Chinese Giants. The other Top Three are European (French and Spanish) Construction Companies, which were formed via M&A in the 1990's & 2000's. Their Turnovers and Profits in 2019/20 were as follows :

Company	Turnover (US\$bn)	Pre-Tax Profit (US\$bn)
Vinci	51	3.9
ACS	43	1.1
Bouygues	42	1.7

(Note: Even after the advent of Covid Vinci maintained a 2020 pre tax profit of \$1.5bn)

TRENDS

Future Trends of the Largest Construction Companies will align with size. Major and more complex projects will require large companies with the financial, human, and technical resources to compete, perform, and occasionally weather losses or downturns. Technology innovations and the rising concerns of environment are major factors that are shaping the future trends of the global construction industry. Only the largest construction companies have the resources in new technologies such as autonomous construction machineries, often equipped with digital sensors, cameras and GPS, to improve productivity. Real-time data obtained from these devices helps in remote monitoring of jobsite and reduces construction time. Meanwhile, many building and construction companies are increasingly adapting green construction techniques using sustainable building materials and construction processes to create energy-efficient buildings with minimal environmental impact.

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