

The South African Consulting Engineering Industry

Presenting and interpretation of latest survey results

Presented by Elsie Snyman

CESA Infrastructure Indaba 2016

7-8 November 2016





Bi-annual Economic and Capacity Survey

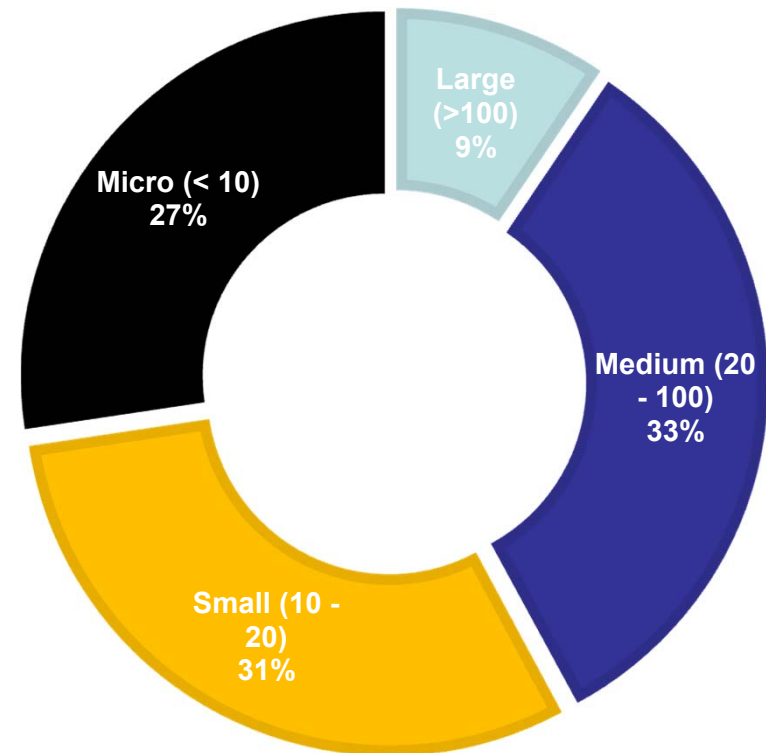
January – June 2016

Purpose of the survey

- Quantitative as well as Qualitative monitoring of key set of indicators affecting the consulting engineering profession
- Quantitative
 - Set of financial indicators, payment, employment, capacity (measuring real change)
- Qualitative
 - Opinions related to employment, tendering, competition, profitability, confidence
- Leading indicator for the construction industry, affecting the outlook for contracting fraternity and downstream suppliers
- Shapes the outlook for future Economic Infrastructure
- Has a large multiplier effect on the development of infrastructure and therefore also employment

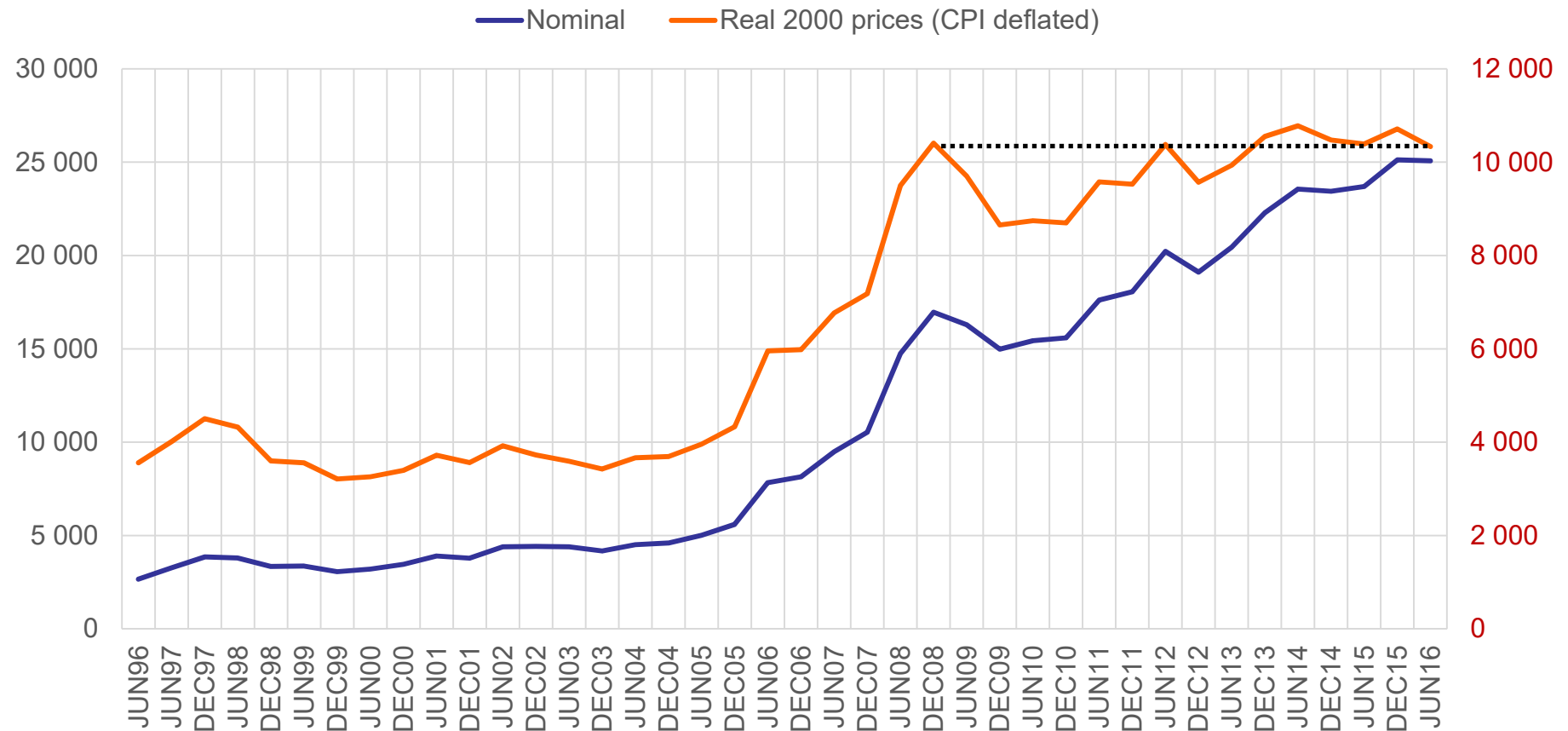
Survey Scope and Profile

- Bi-annual survey
- Since 1997
- CESA membership
- Consecutive sample to monitor real change in financial indicators
- Responses are weighed by employment contribution
- Represents app 1/3 of total employment

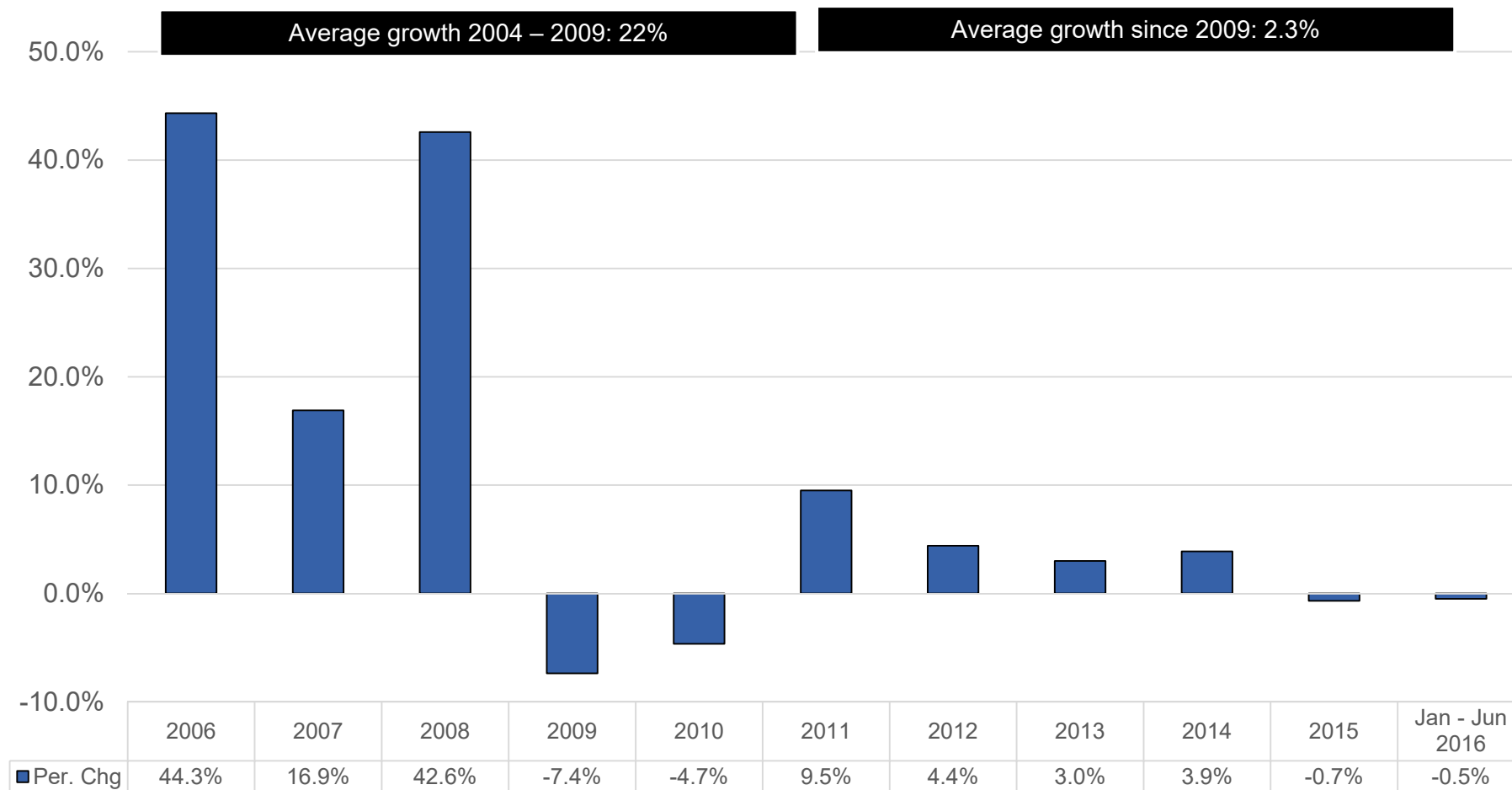


Financial	Human Resources	Profile	Indicators
<ul style="list-style-type: none"> • Fee earnings • Discounting • Profitability • Payments • Financial Benchmarks 	<ul style="list-style-type: none"> • Salary and Wage bill • Employment Trends • Employment Profile • Capacity Utilisation • Training, Bursaries 	<ul style="list-style-type: none"> • Geographical • Disciplines • Sector • Clients 	<p>Monitor opinions of firms regarding current and expected business conditions</p>

Nominal fee earnings reach R25bn in 2015



Earnings fell by an average of 0.7% in 2015, with a 0.5 percent contraction reported in the first half of 2016

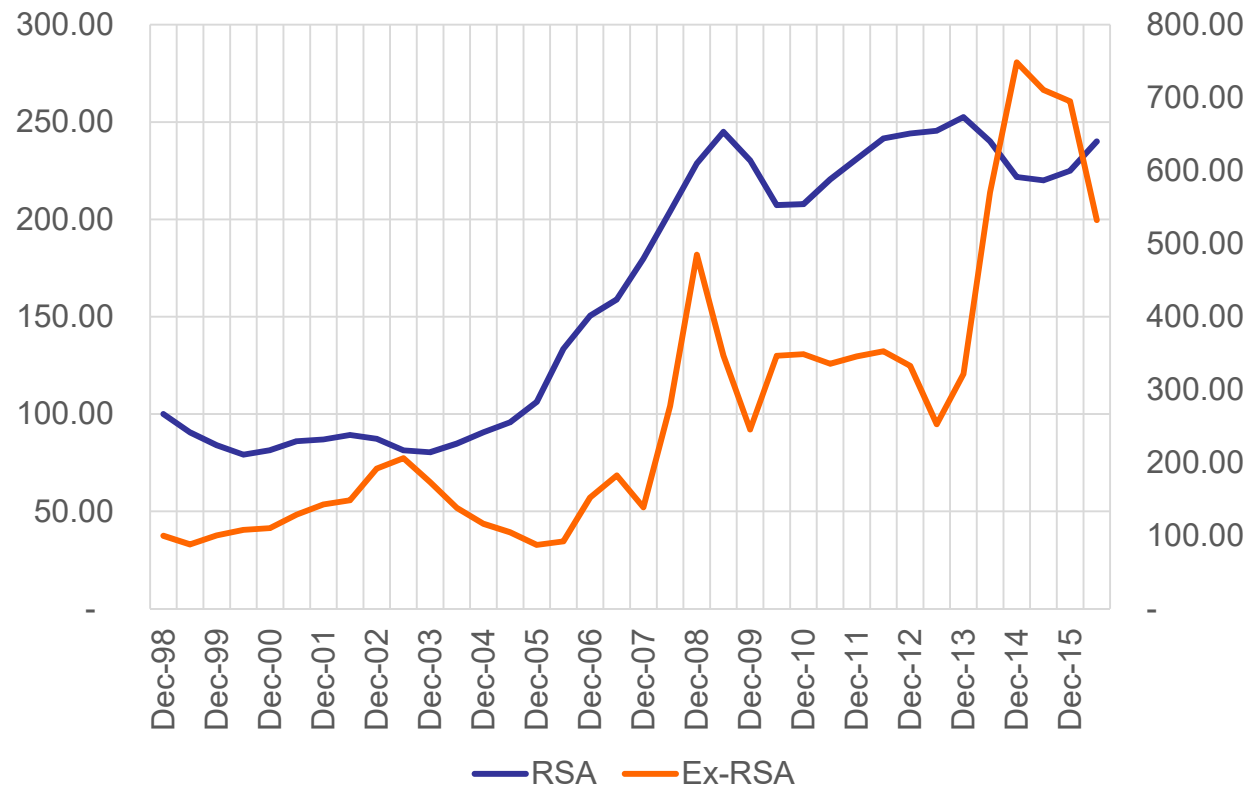


Earnings in South Africa rise by 7% in first six months of 2016 vs a 23% contraction in cross border earnings

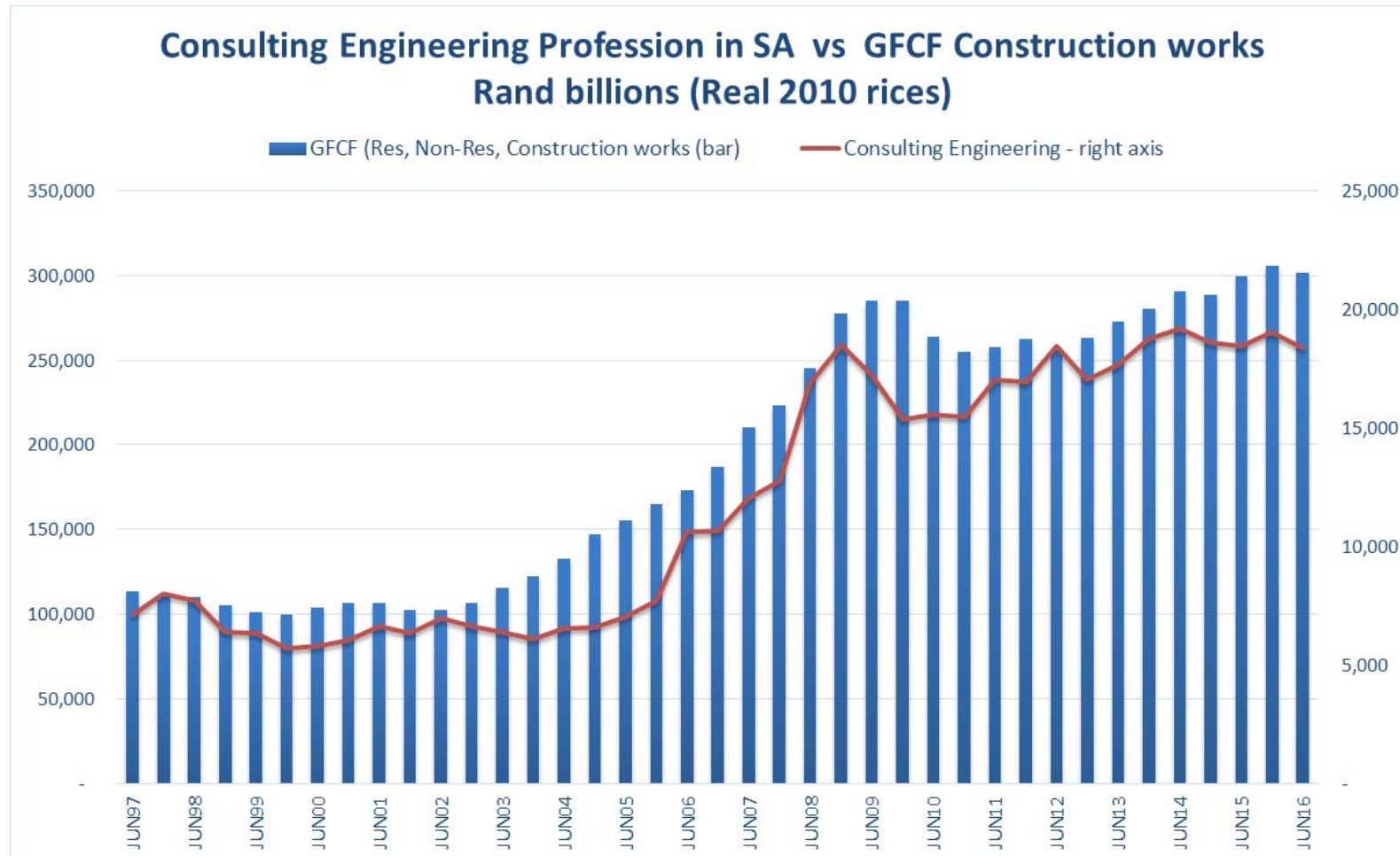
25%

- Growth in Africa constrained by lower economic growth and weak commodity prices
- Growing Oil and Gas opportunities
- Potential \$100bn / year

Earnings: RSA vs EX-RSA
Index 1998 = 100 (2010 prices)



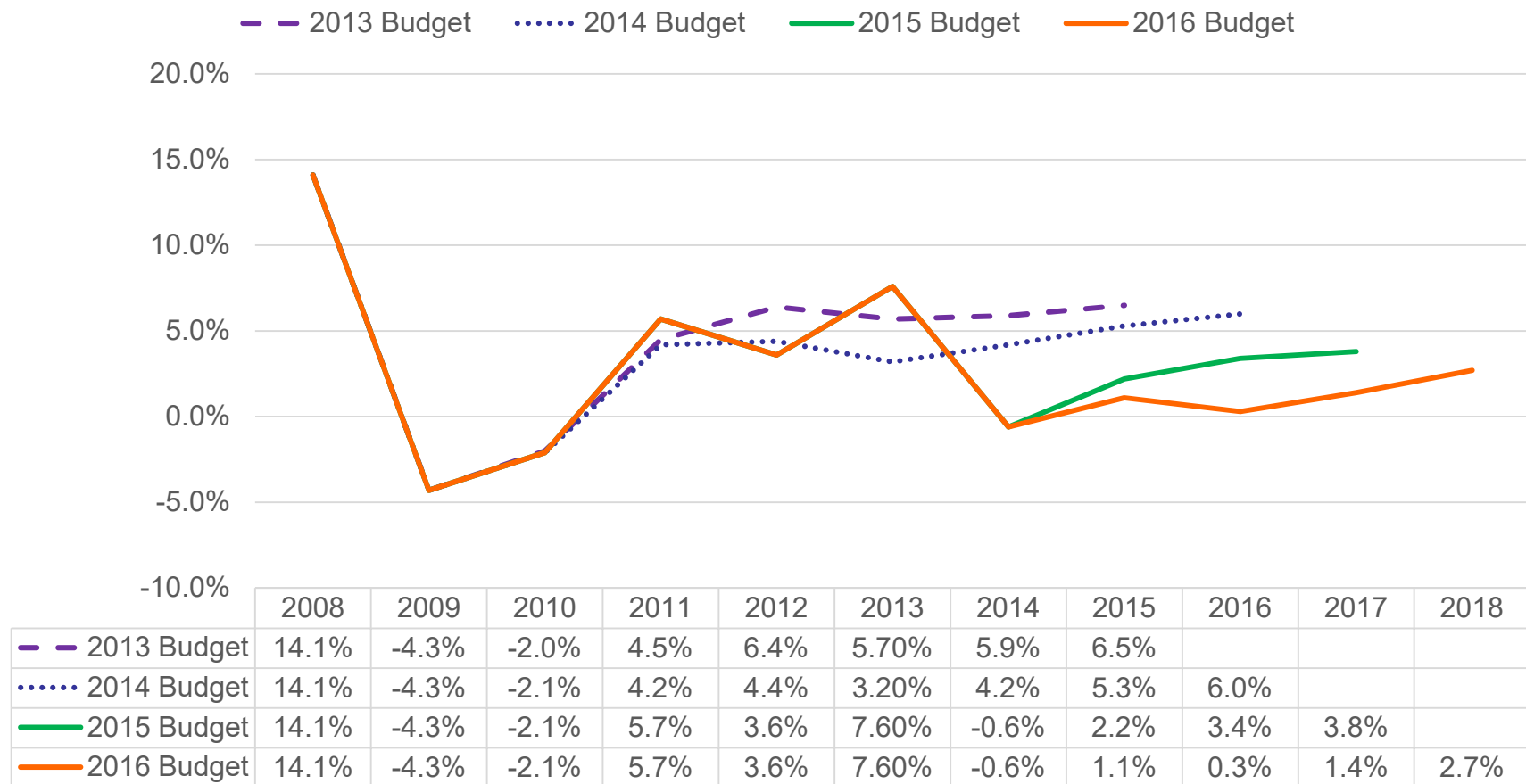
Strong relationship between Consulting Engineering Fee earnings and GFCF



Source: SARB, CESA

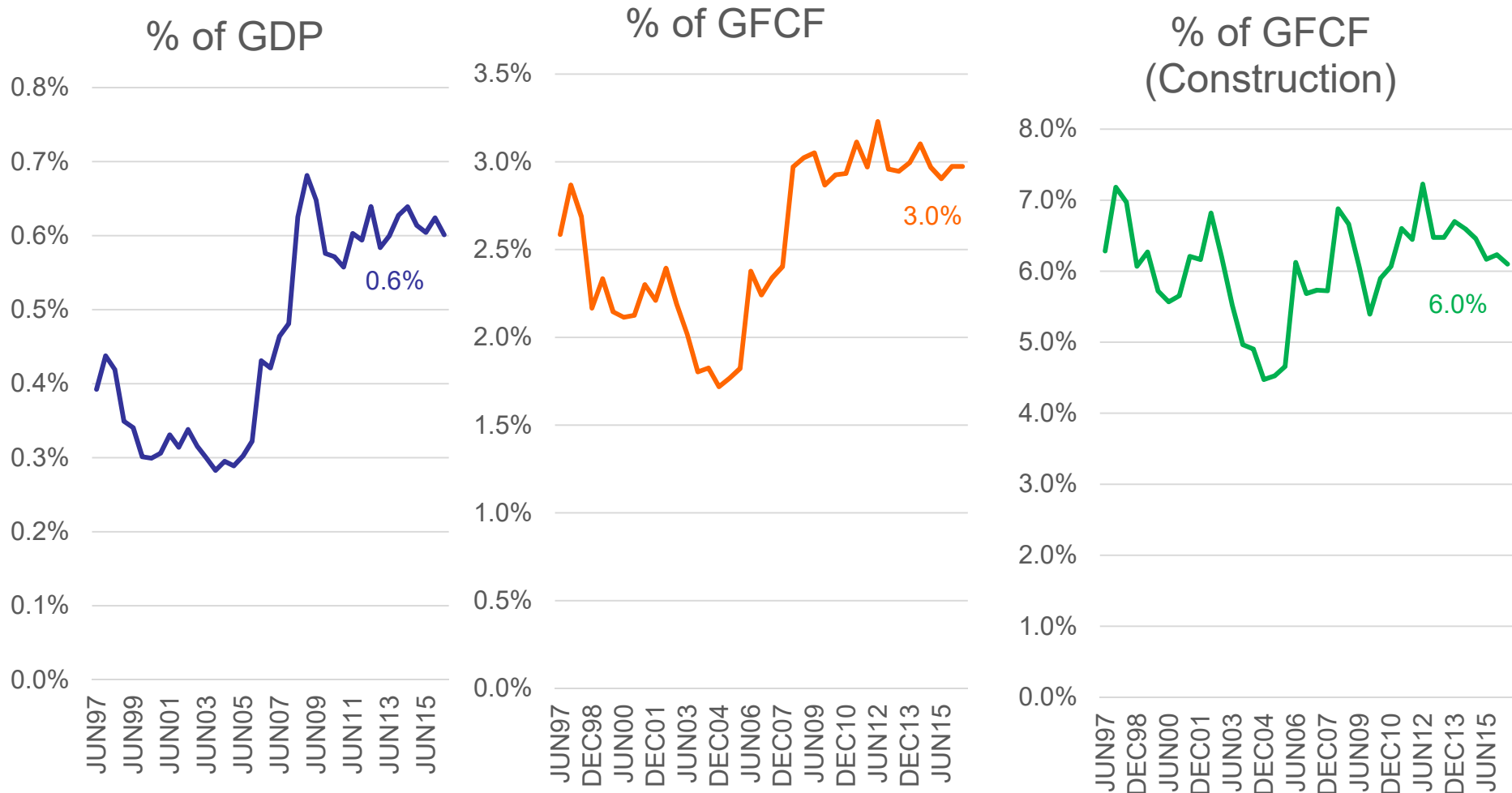
Weaker economic growth outlook combined with low investor confidence dampens GFCF growth outlook

GFCF Growth – Then and Now



Source: National Treasury

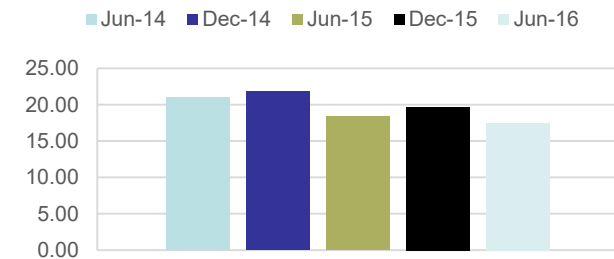
Contribution of Consulting Engineering Profession



Engineering firms **outsource** for various reasons including:

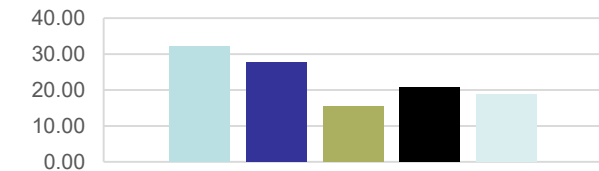
- External business enterprises or individuals including sub-consultants, JV's and contract workers

17%



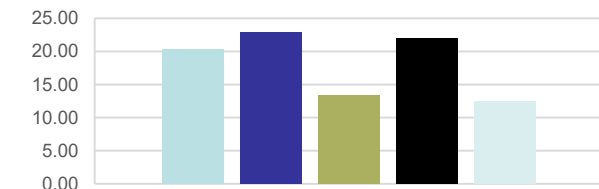
- To satisfy public sector / transformational requirements as laid down by public sector clients

19%

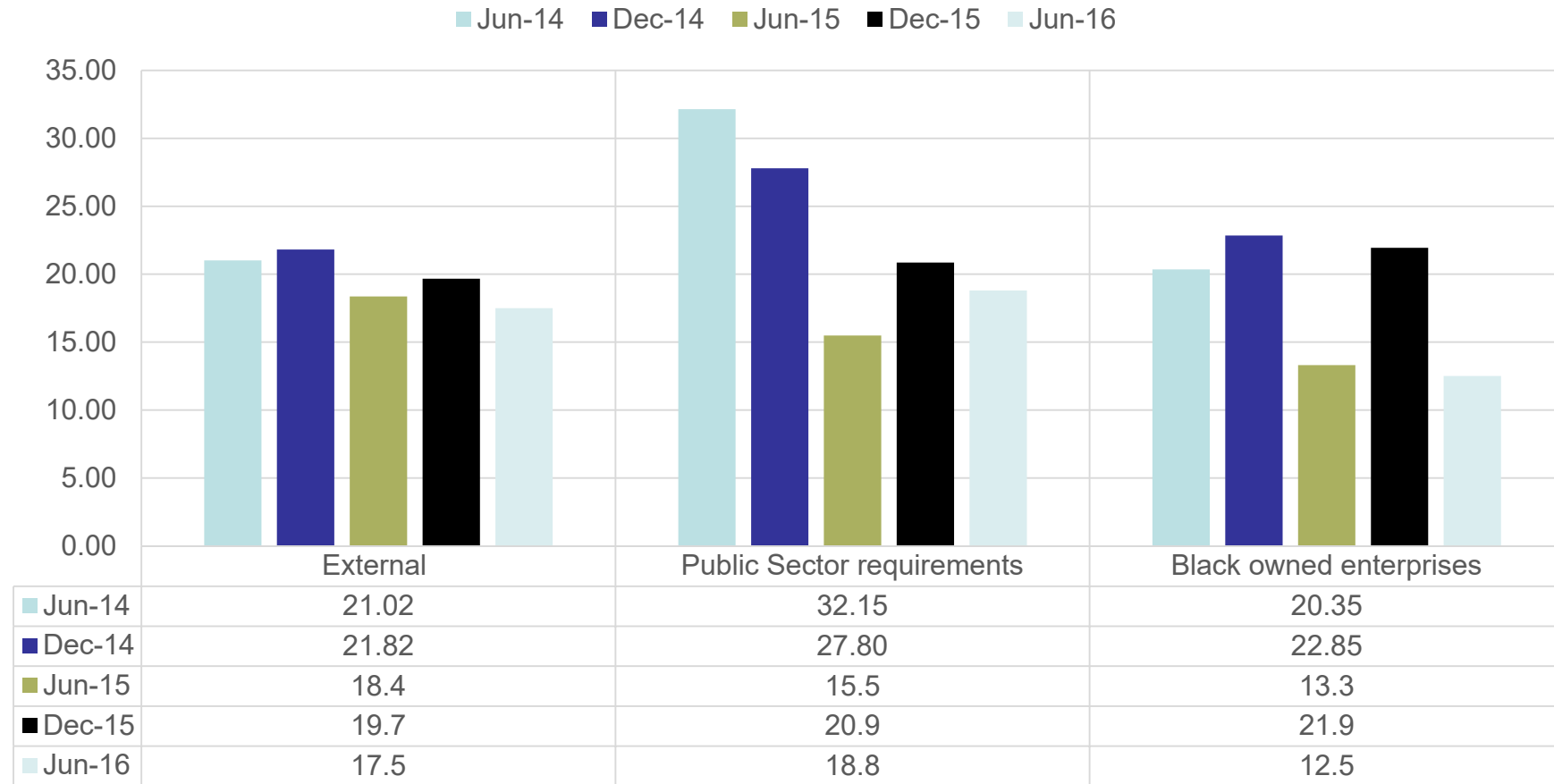


- Black owned enterprises

13%



On average firms outsource a higher percentage of turnover due to procurement and transformation requirements...

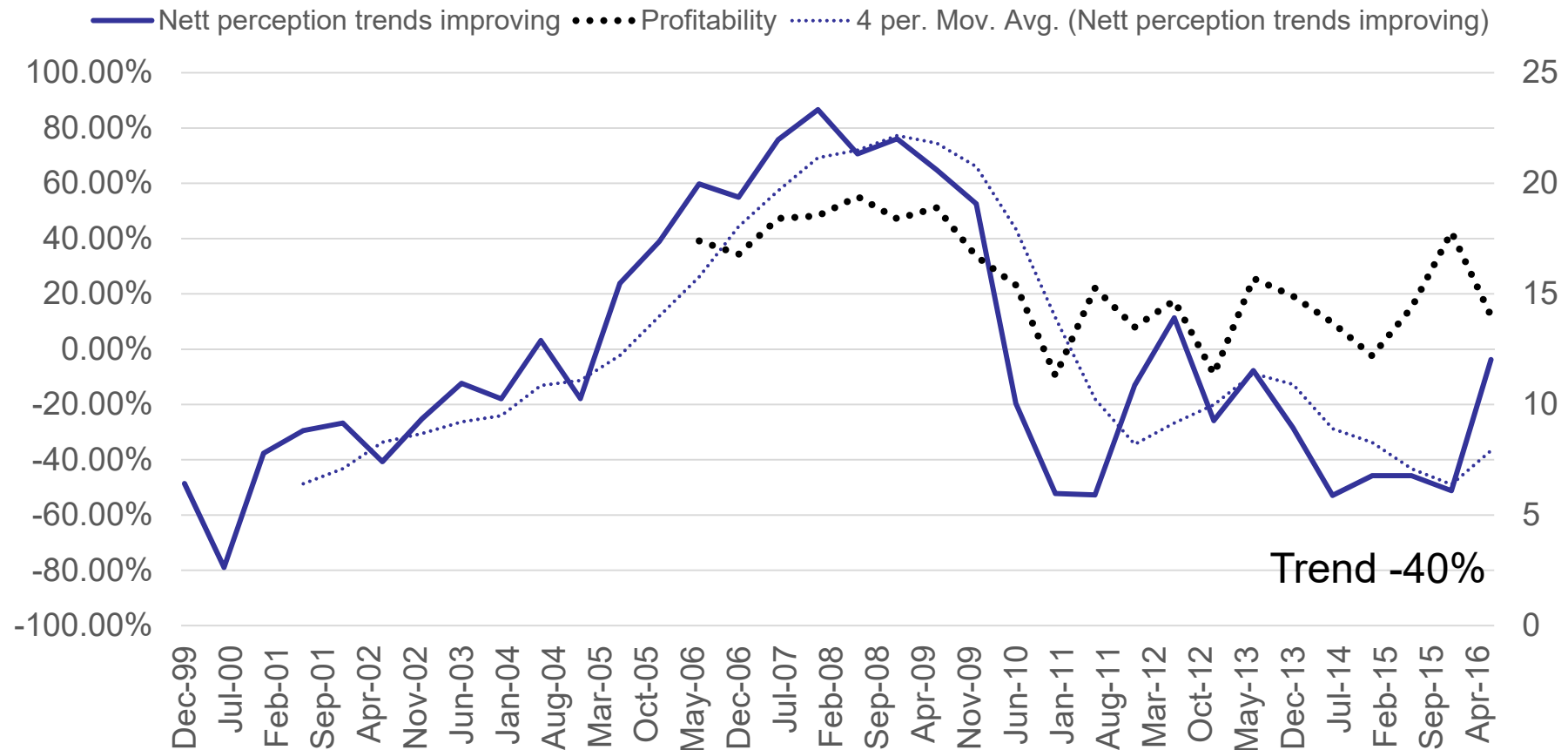


Outlook on profitability has been largely negative since 2009, and although the nett satisfaction rate remains negative, there has been some improvement, although margins remain below historical levels.

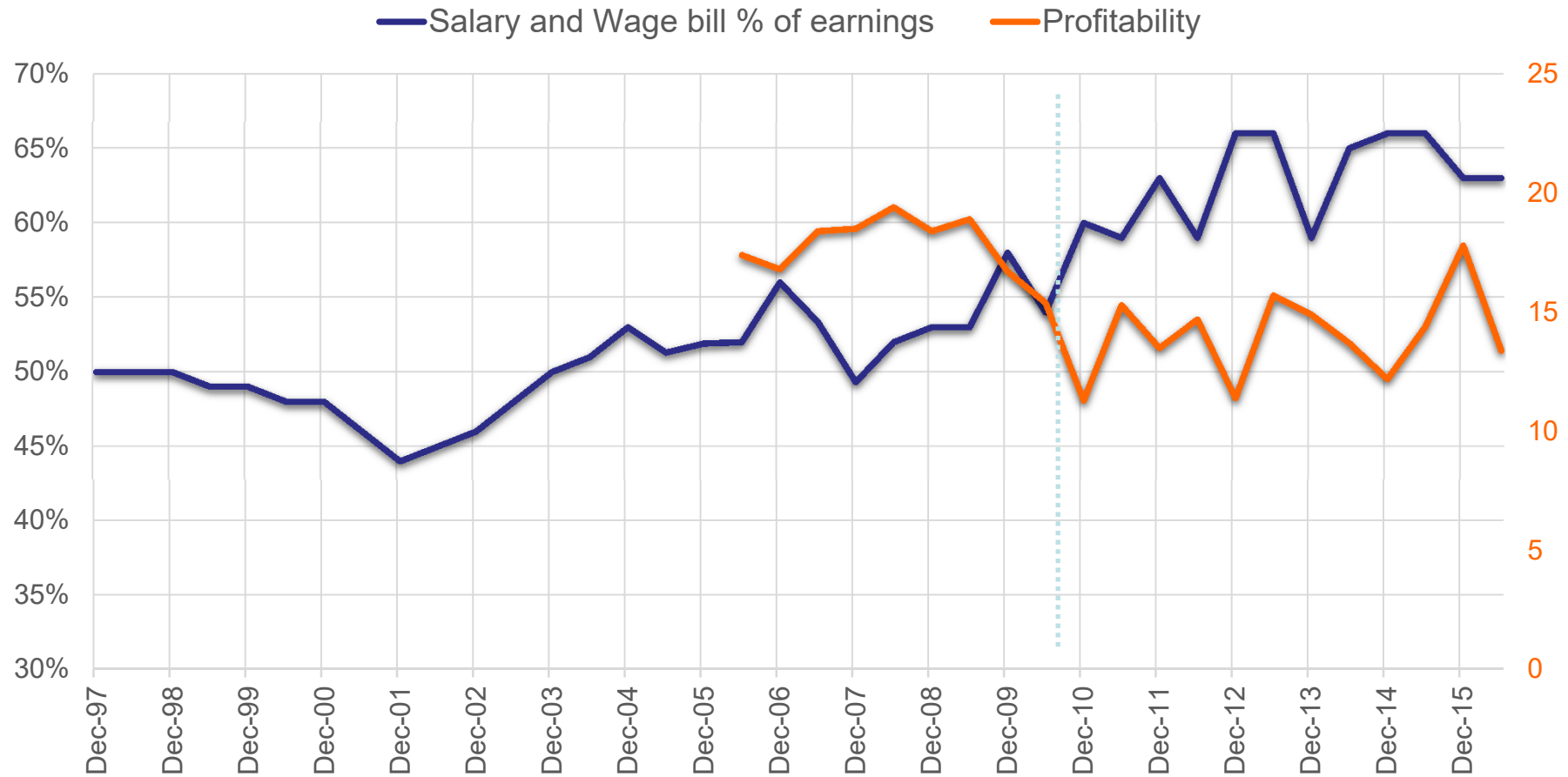
- Majority of firms expect profit margins to **stabilise** (54 percent)
- 64% of firms are satisfied with current levels of profitability vs 22% in the previous survey

Profitability slows to 14% in first six months of 2016 from an average of 16.1% in 2015 (13% 2014)

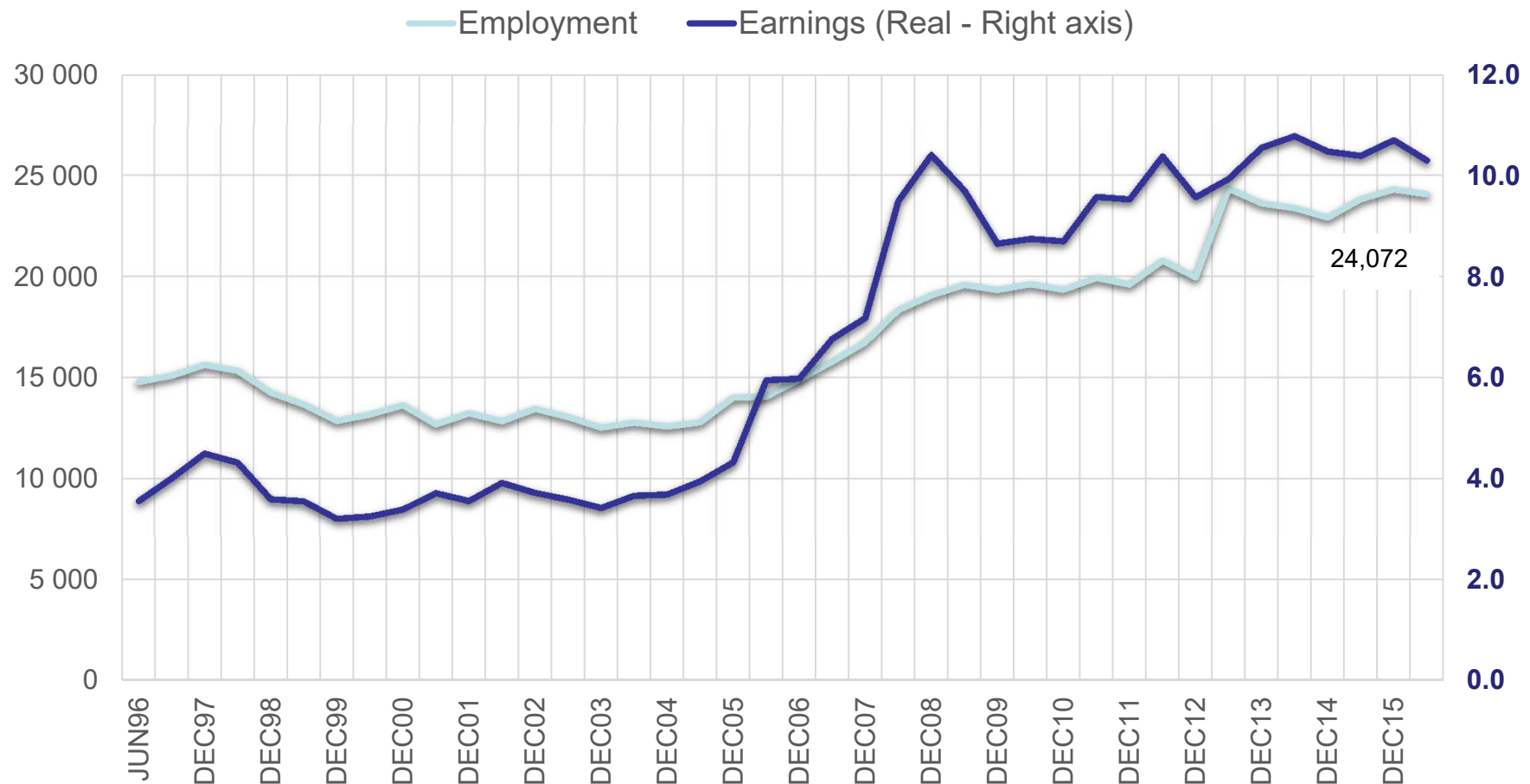
Profitability : Nett % Satisfaction rate



Salary and wages represent 63% of earnings in the current survey (Average 2015: 64.5%)

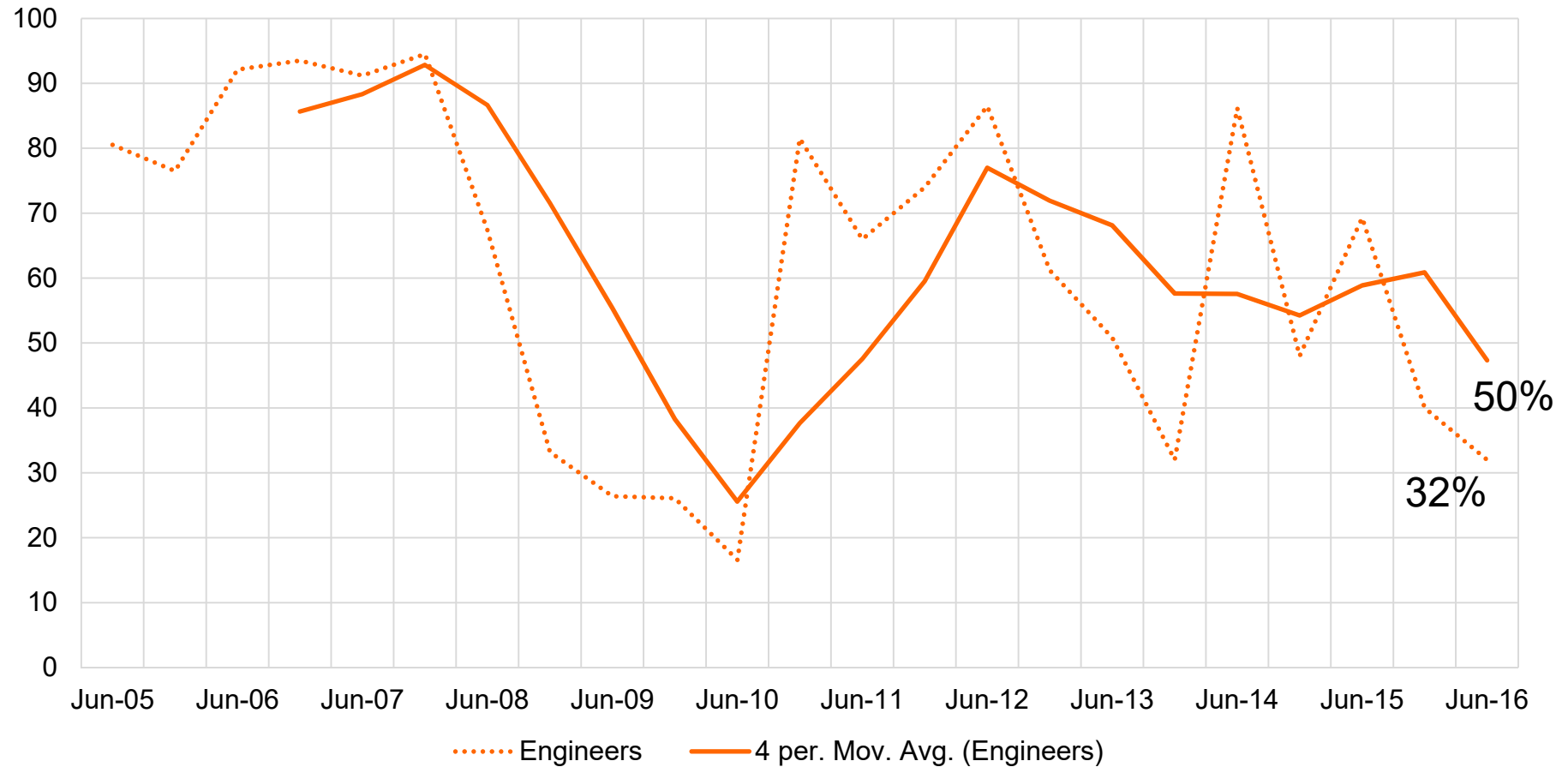


Employment contracted by 1% in H1 2016, no growth compared to same period in 2015, alongside weaker earnings in the first six months of the year

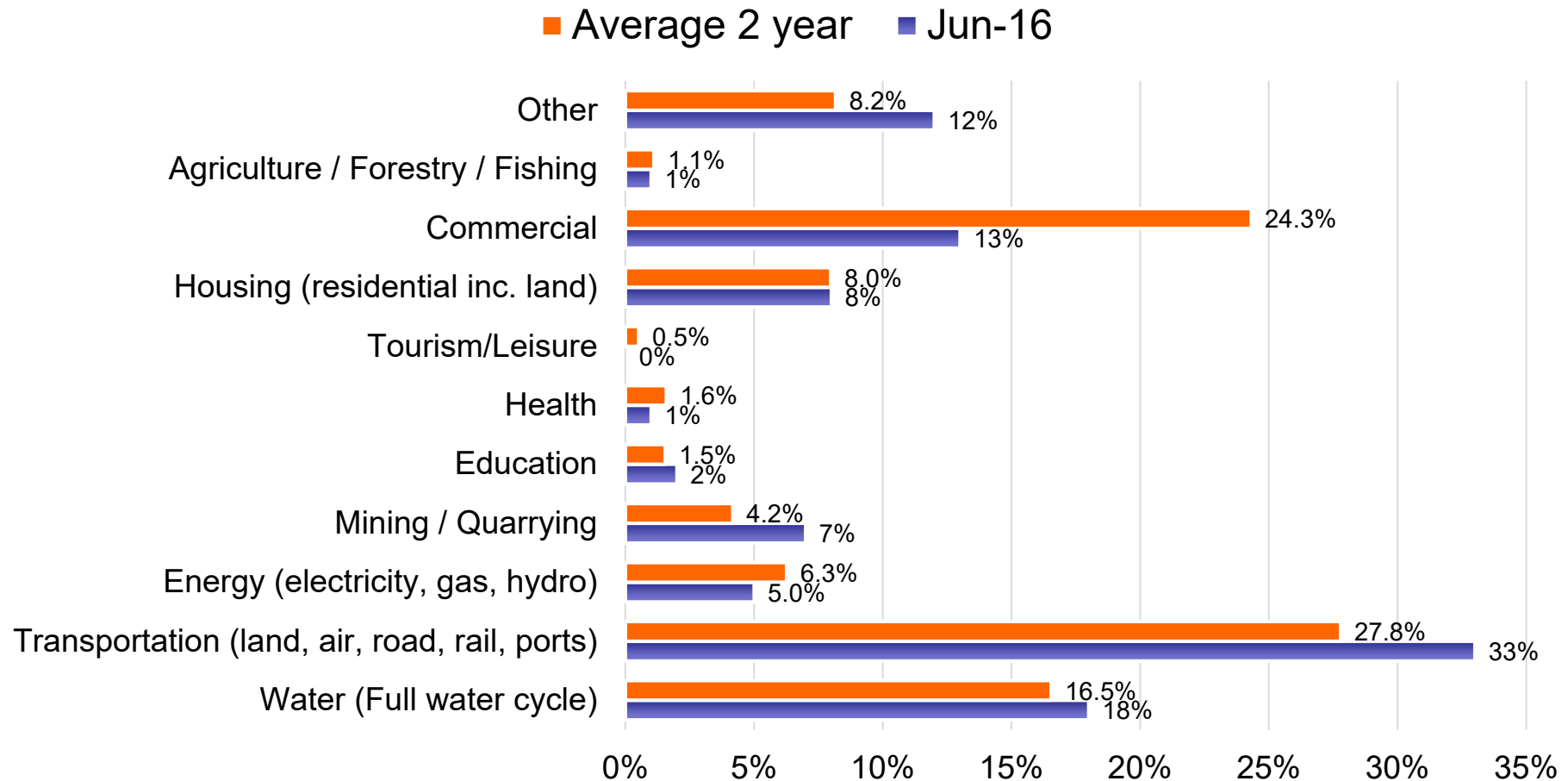


Fewer firms looking to employ engineers in the last survey

No real improvement since 2012



Earnings by Sector | Percentage contribution

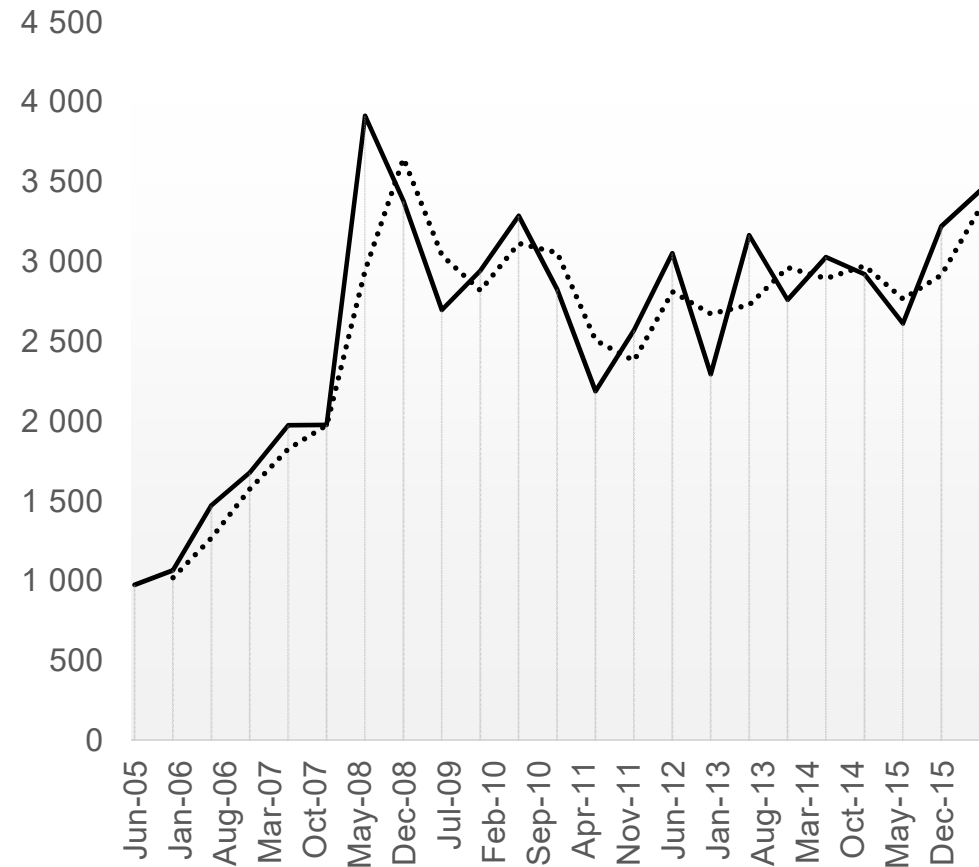




Transport accounted for 33% of earnings in first six months of 2016

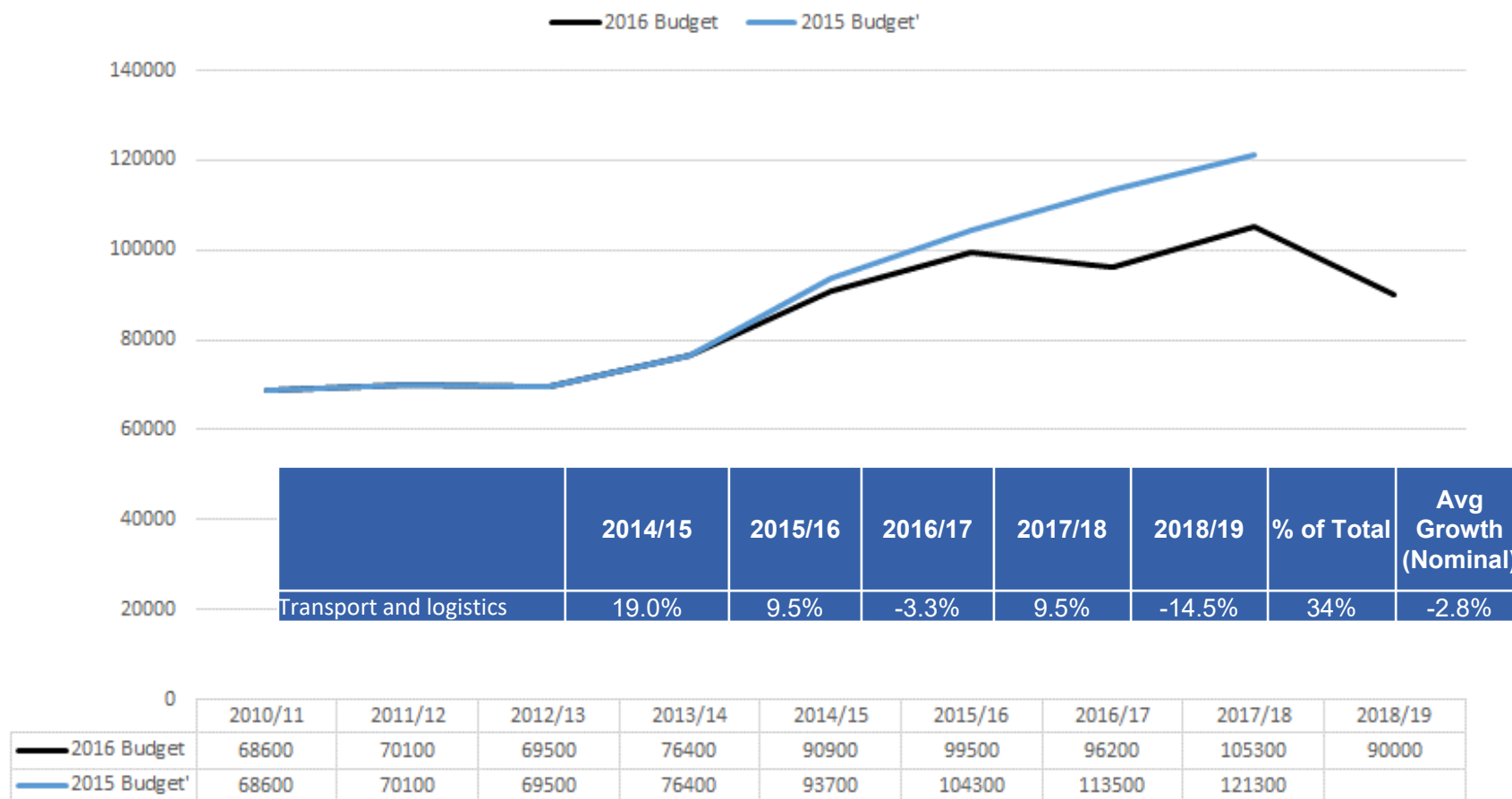
(from 28% in 2014, 27.6% in 2015, 27.8% 2-year average)

- R291bn over MTEF allocated to Transport and Logistics (largest economic infrastructure sector)
- Overall spending projected to fall by 3 percent (MTEF)
- Reduced capital expenditure by Transnet R77bn (MTEF), deferring capital projects due to low demand and lower commodity prices
- SANRAL e-toll debacle continues – expect 16% increase in revenue collections over the MTEF period



Negative average growth over MTEF (-2.8%) compared to 9% growth in 2015 Budget

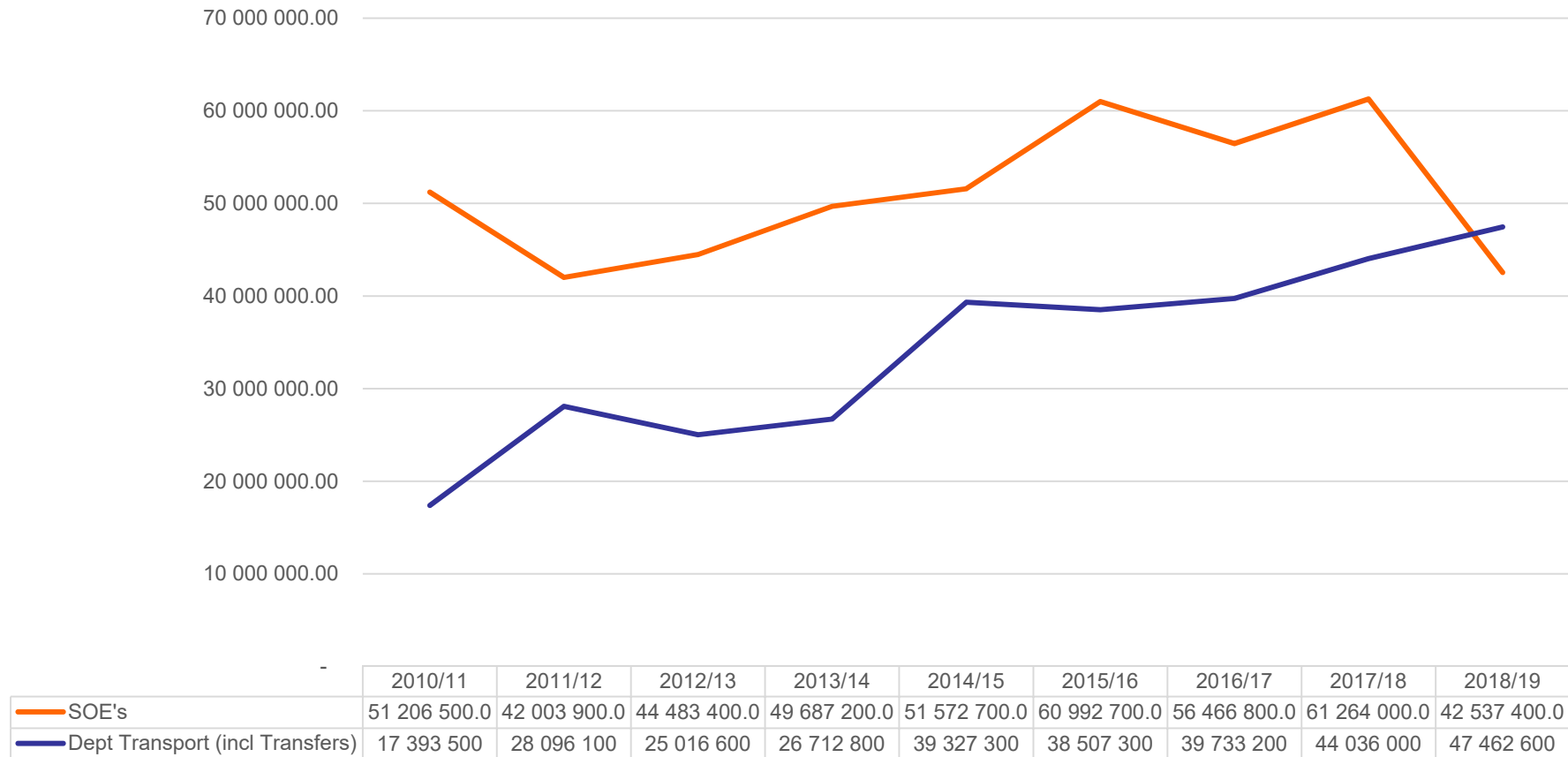
Transport & Logistics Infrastructure, Rm current prices



Source: National Treasury

Spending on transport & logistics projected to fall over the medium term, -3% (nominal terms)

Transport & Logistics Infrastructure
Dept Transport vs other SOE's, Rm current prices

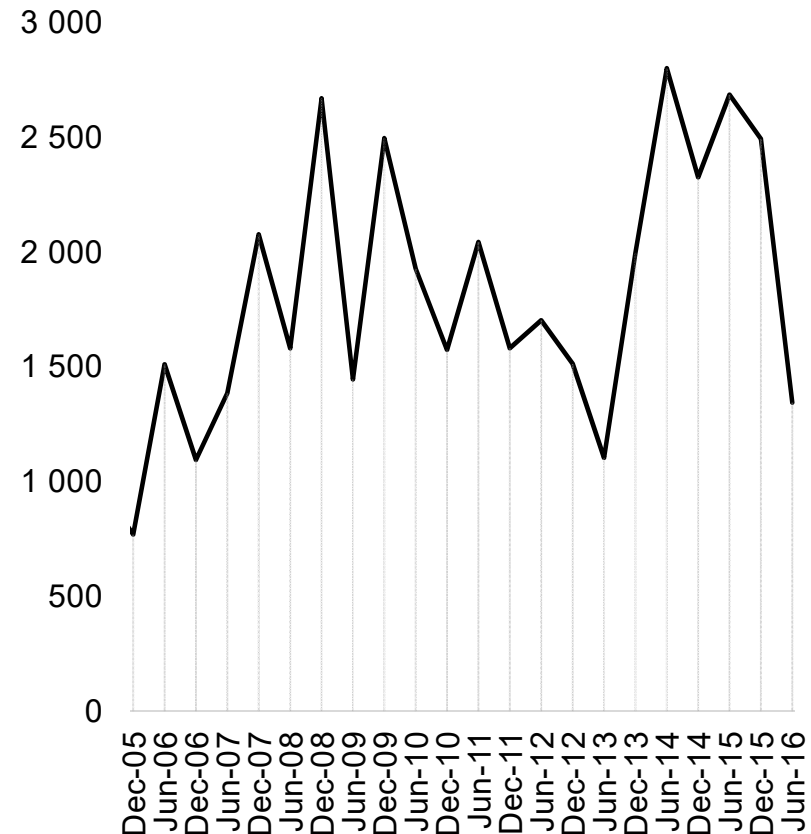




Commercial sector accounted for 13% of earnings in first six months of 2016

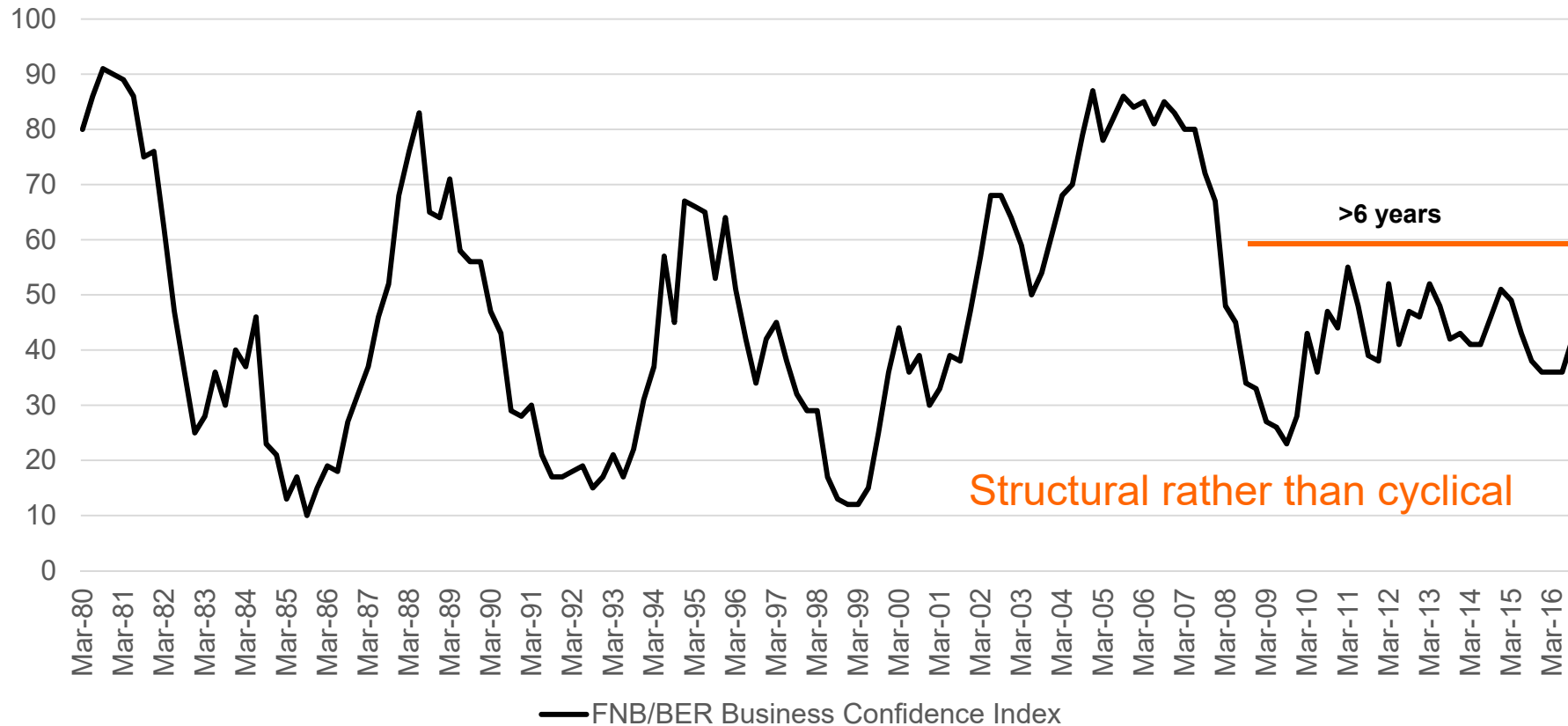
(from 24% in 2014, 24.6% in 2015, 24.3% 2-year average)

- Higher levels of investment in owner-occupied developments, offices and mixed use developments
 - Old Mutual Head office, PWC head office, 140 West Street, Silo no 5 (Water front), KPMG offices
- Retail development, extensions
 - Extensions to Balito Junction, Extension to Fourways mall, Springs Mall, Thavhani mall, Kyalami corner, Botshabelo shopping centre, Redevelopment of Village Walk shopping centre, Cornubia Mall, Whale Coast Shopping centre...



Business confidence remains weak and deteriorated to 36 in 2016Q1 before recovering to 42 in Q3

FNB/BER Business Confidence Index



Source: FNB

Initiatives to engage with and encourage investment with the private sector?

“To grow faster, the economy needs higher levels of private sector investment”

Pravin Gordhan October 2016

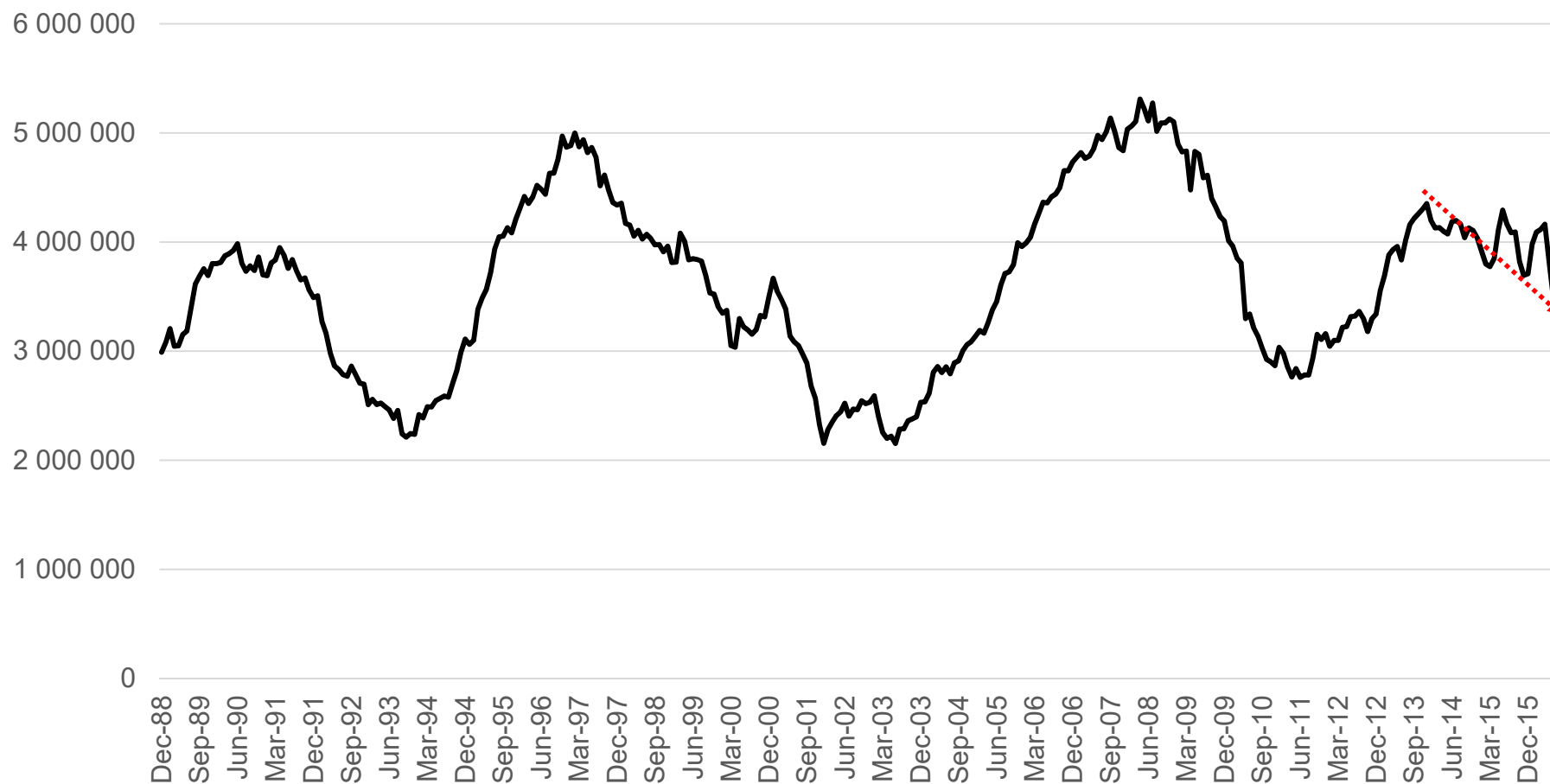
Government's plan to restore confidence:

- Finalising a regulatory framework for private-sector participation in infrastructure projects, including initiatives in partnerships with SOE's
- Addressing legislative and regulatory uncertainties that hold back investment in mining, agriculture and key technology sectors
- Rationalising, closing or selling off public assets that are no longer relevant to government's development agenda
- Concluding labour market reforms



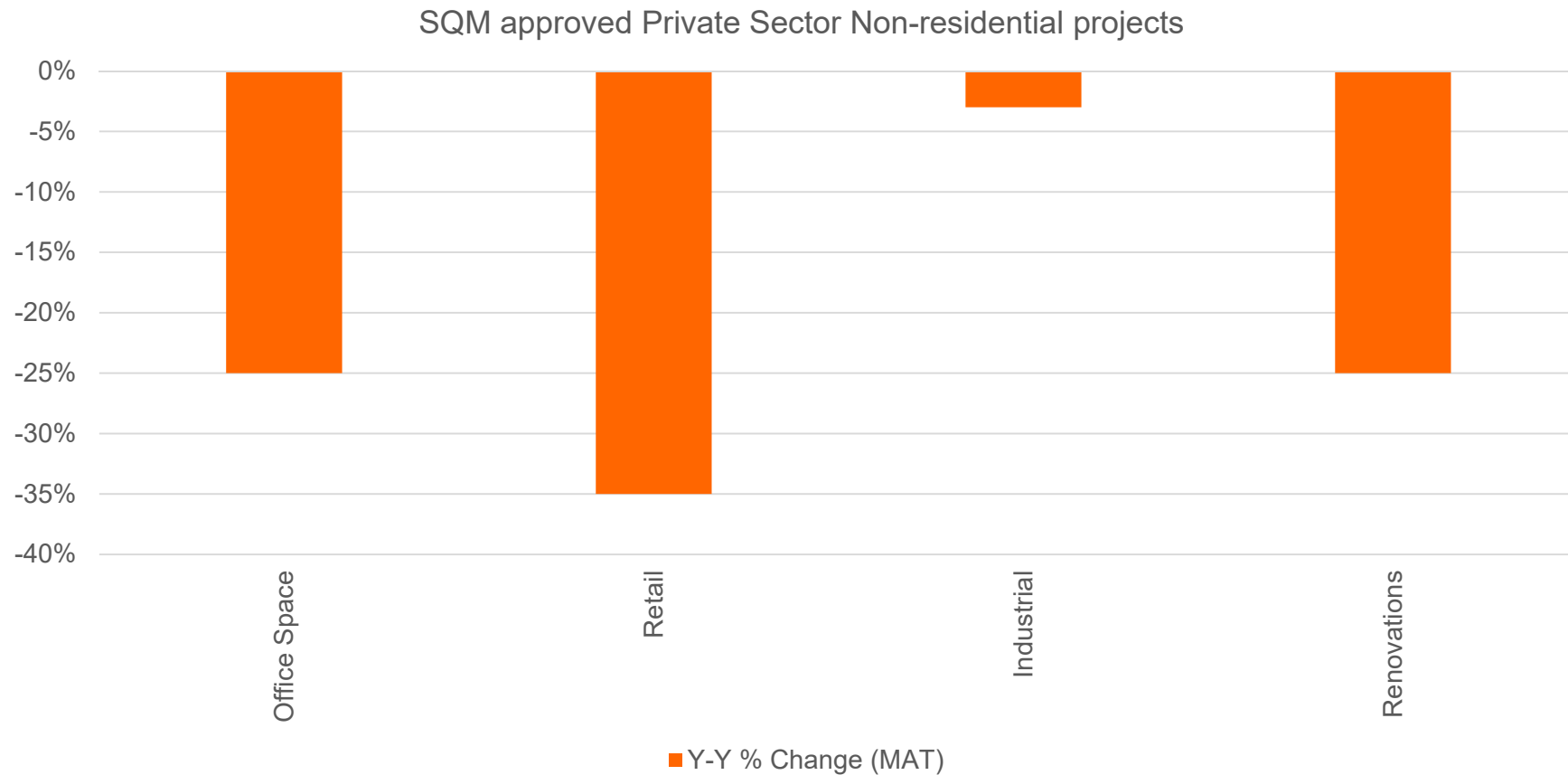
IMF highlights
political
instability/concerns
as key growth
constraints

Non-Residential SQM approved Down 17% y-y (MAT, Aug'16)



Source: Stats SA

Sharp declines across all market segments suggesting further contraction in private sector commercial pipeline projects



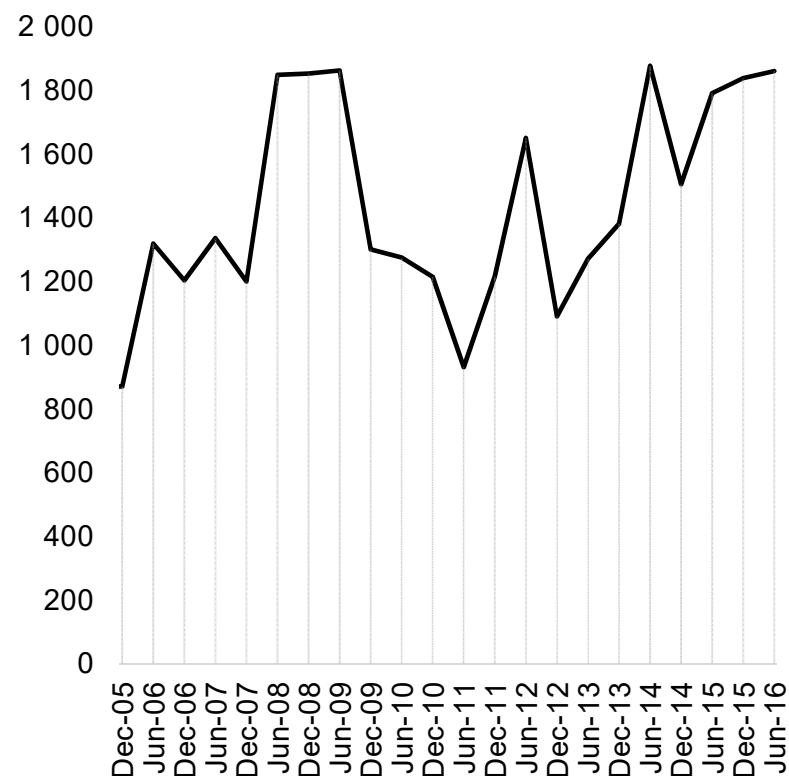
Source: Stats SA



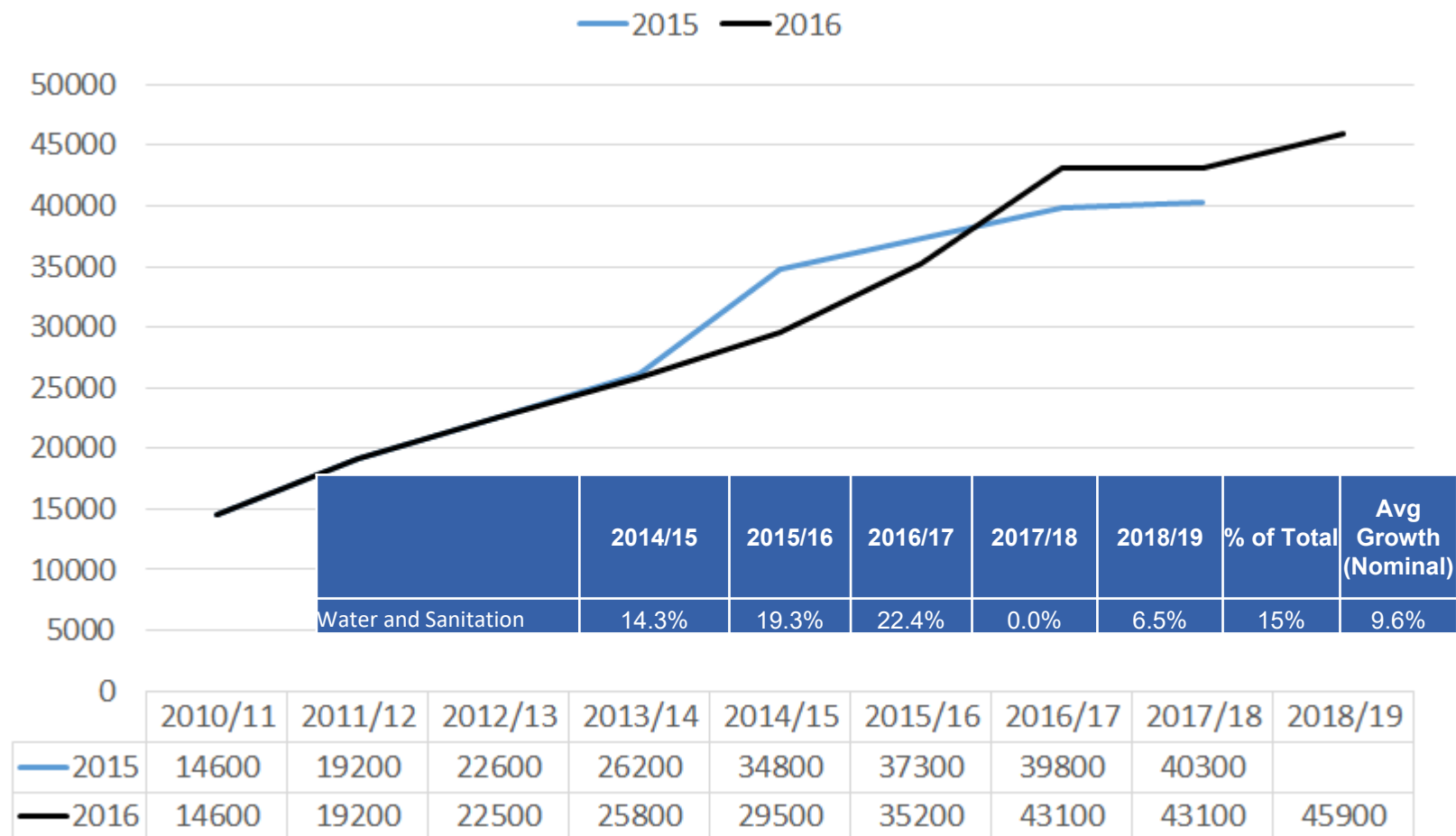
Water accounted for 18% of earnings in first six months of 2016

(from 14% in 2014, 17.2% in 2015, 16.5% 2-year average)

- Earnings nearly doubled since 2010 to R2bn
- Expenditure on Water & Sanitation projected to increase by 10% (nominal) over MTEF period, from an average growth of 5% in the 2015 Budget
- WATER CRISIS LOOMING – Required spending R300bn in 4 years (ActionAid South Africa Review), predict a 2 million cubic litre shortfall by 2025
- Demand side management, improve efficiency in usage, reduce wastage



Water & Sanitation Total Public sector Infrastructure: R132bn (MTEF) Average growth of 10%

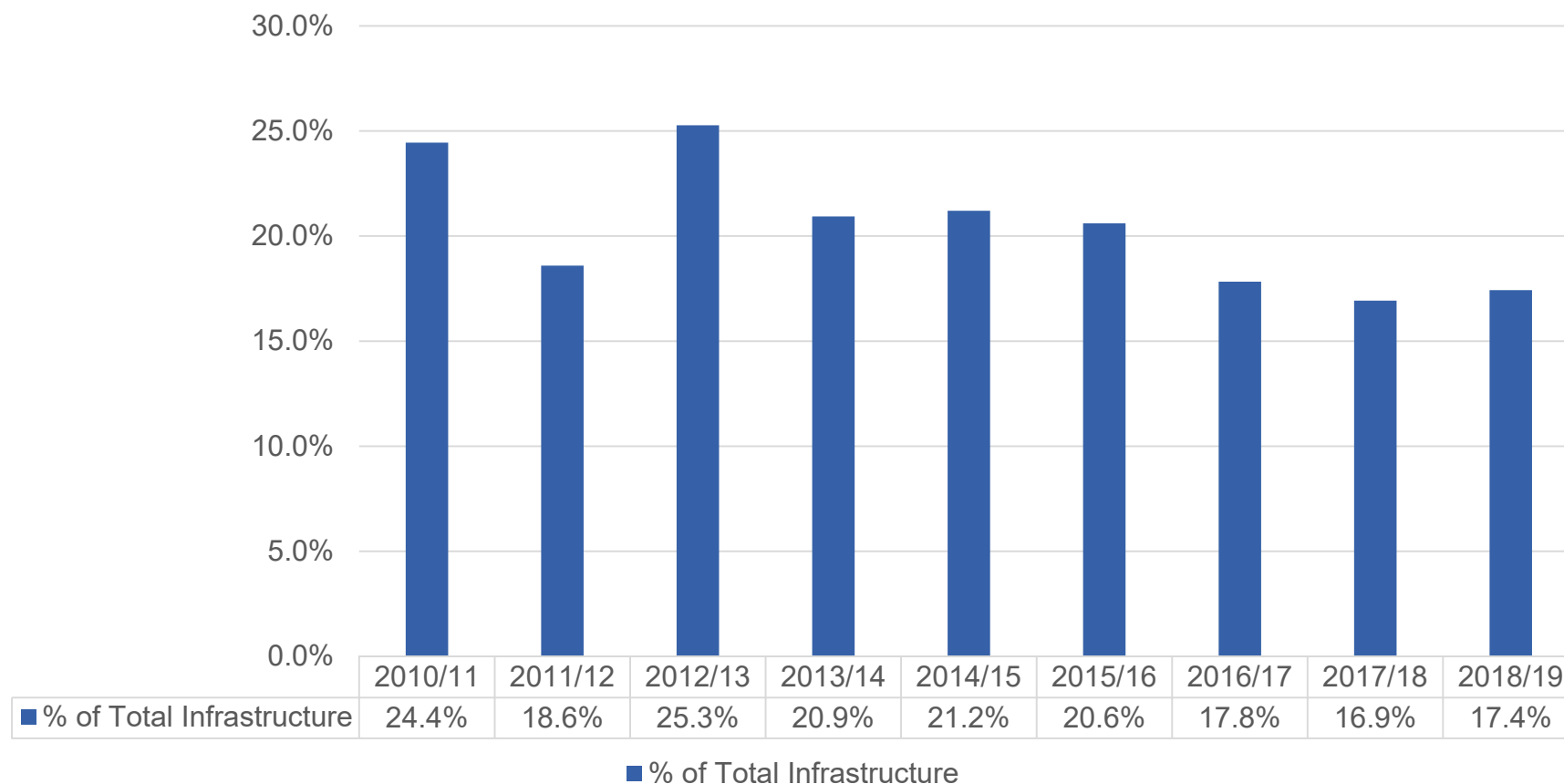


Source: National Treasury

Government plays lesser role in water infrastructure

Increased focus on water boards - Will tariff increases be sufficient ?

Government share of Total Water & Sanitation Infrastructure

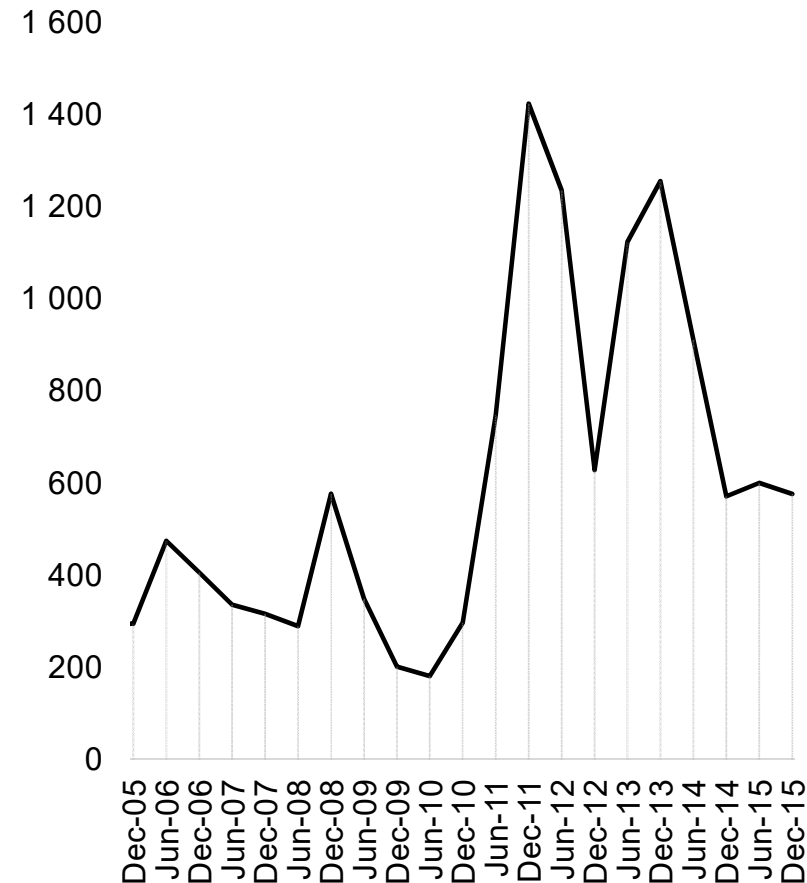




Energy accounted for 5% of earnings in first six months of 2016

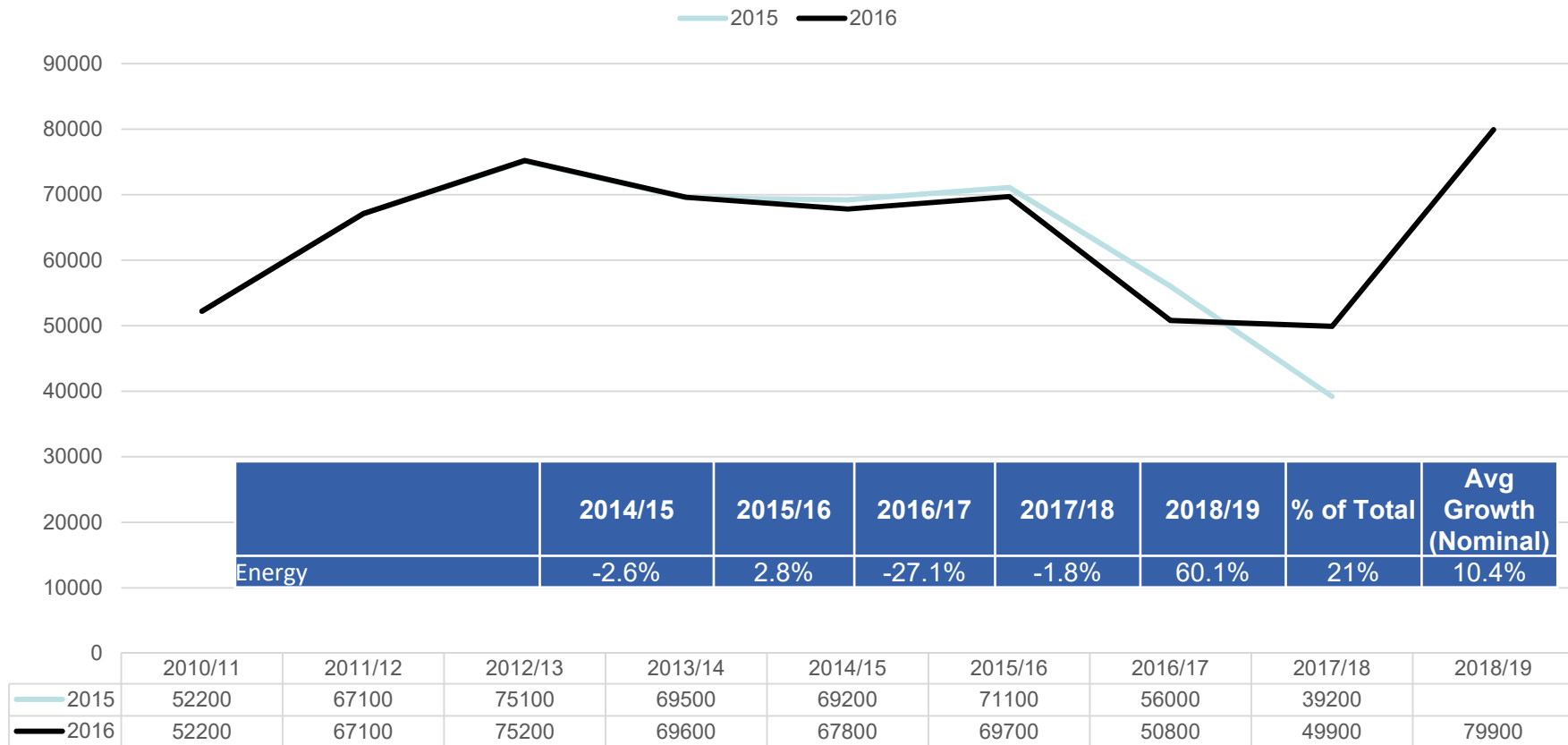
(from 7% in 2014, 5.6% in 2015, 6.3% 2-year average)

- Expenditure on Energy projected to increase by 10% (MTEF) from a decrease of 16% (2015 MTEF)
- Supported by higher levels of investment in Renewable energy
- Diverse Energy Mix
- Nuclear?



Energy Infrastructure allocations increase towards 2018/19

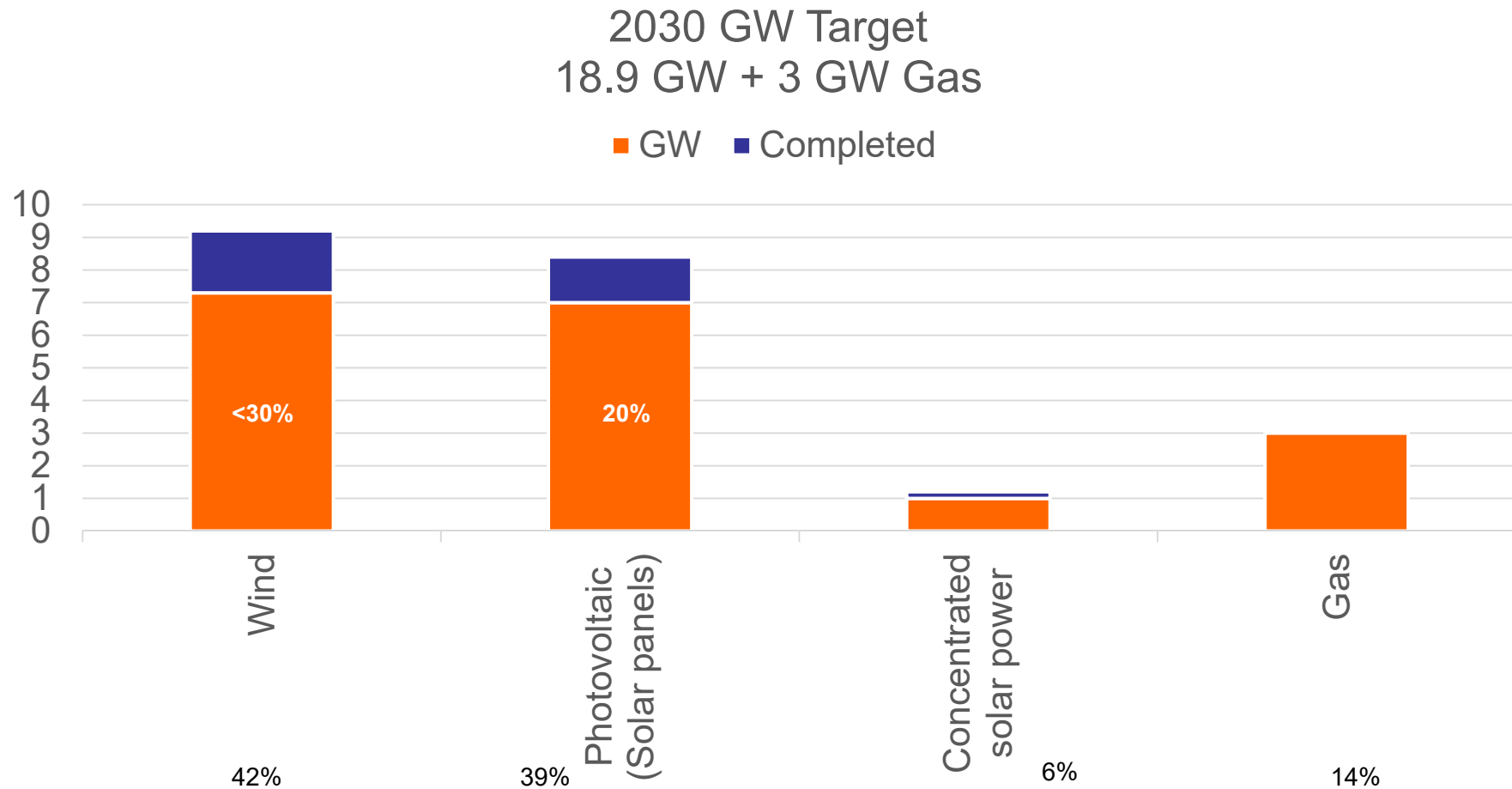
Energy Total Public Sector Infrastructure
Rm, current prices



Source: National Treasury

Diversifying the renewable energy mix

Private Sector Investment R194 bn



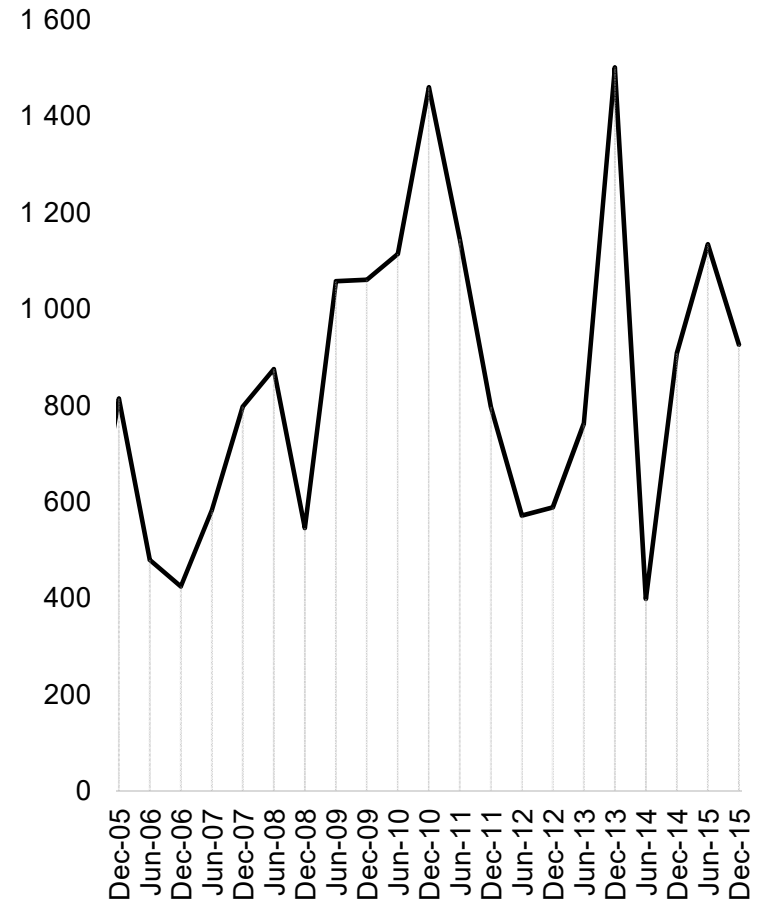
Source: Department of Energy



Housing accounted for 8% of earnings in first six months of 2016

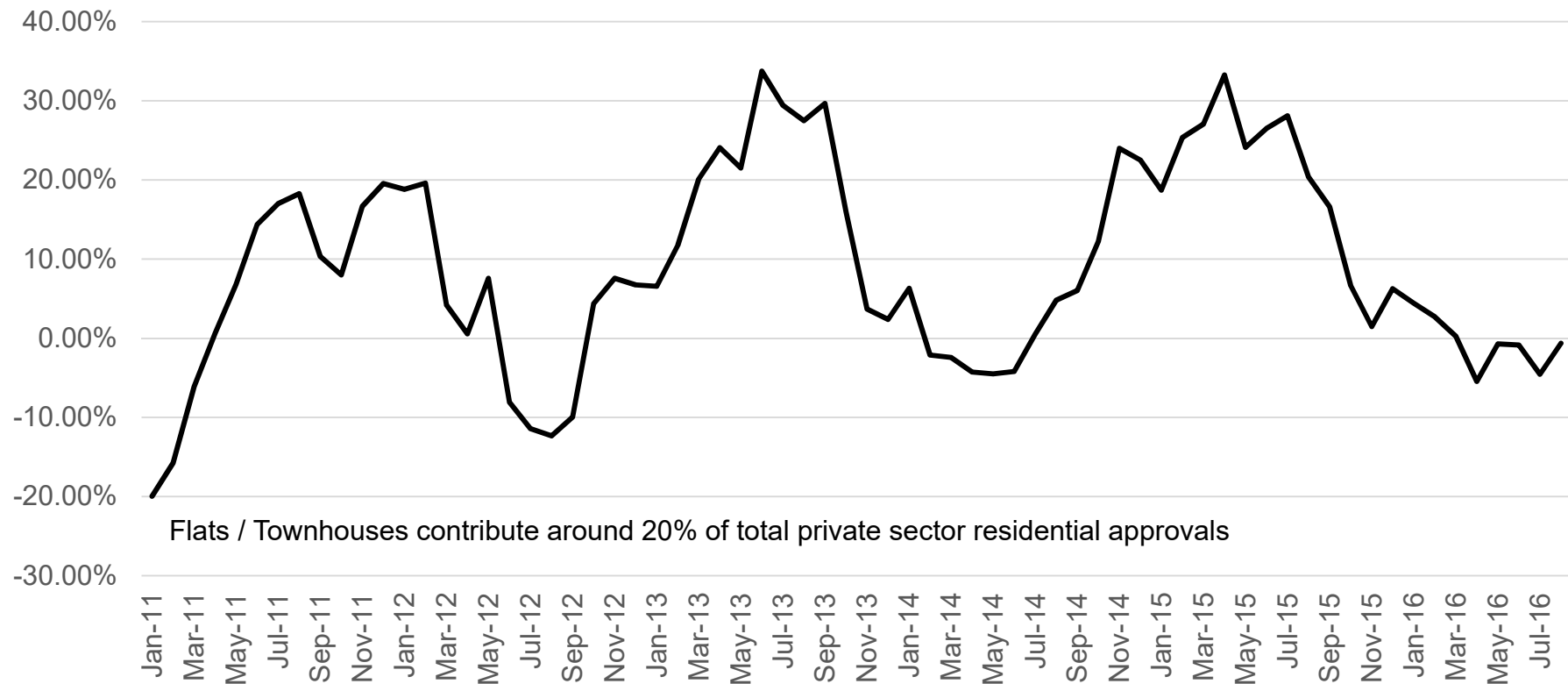
(from 6% in 2014, 9.8% in 2015, 8.0% 2-year average)

- Supported by higher levels of investment in large scale mixed-use developments
 - Moffat park South Hills
 - Savanna City
 - Jackal Creek
 - Steyn City
 - Cornubia
- Continued support for mega city, “catalytic” developments (Department of Human Settlement)
- Private housing supported by listing of residential property funds amidst growing housing shortage
 - Indluplace Properties – first to list
 - Balwin Properties – strong pipeline in the next five years, aims to be the largest fund on the JSE with market cap of R10bn (currently R3.3bn)



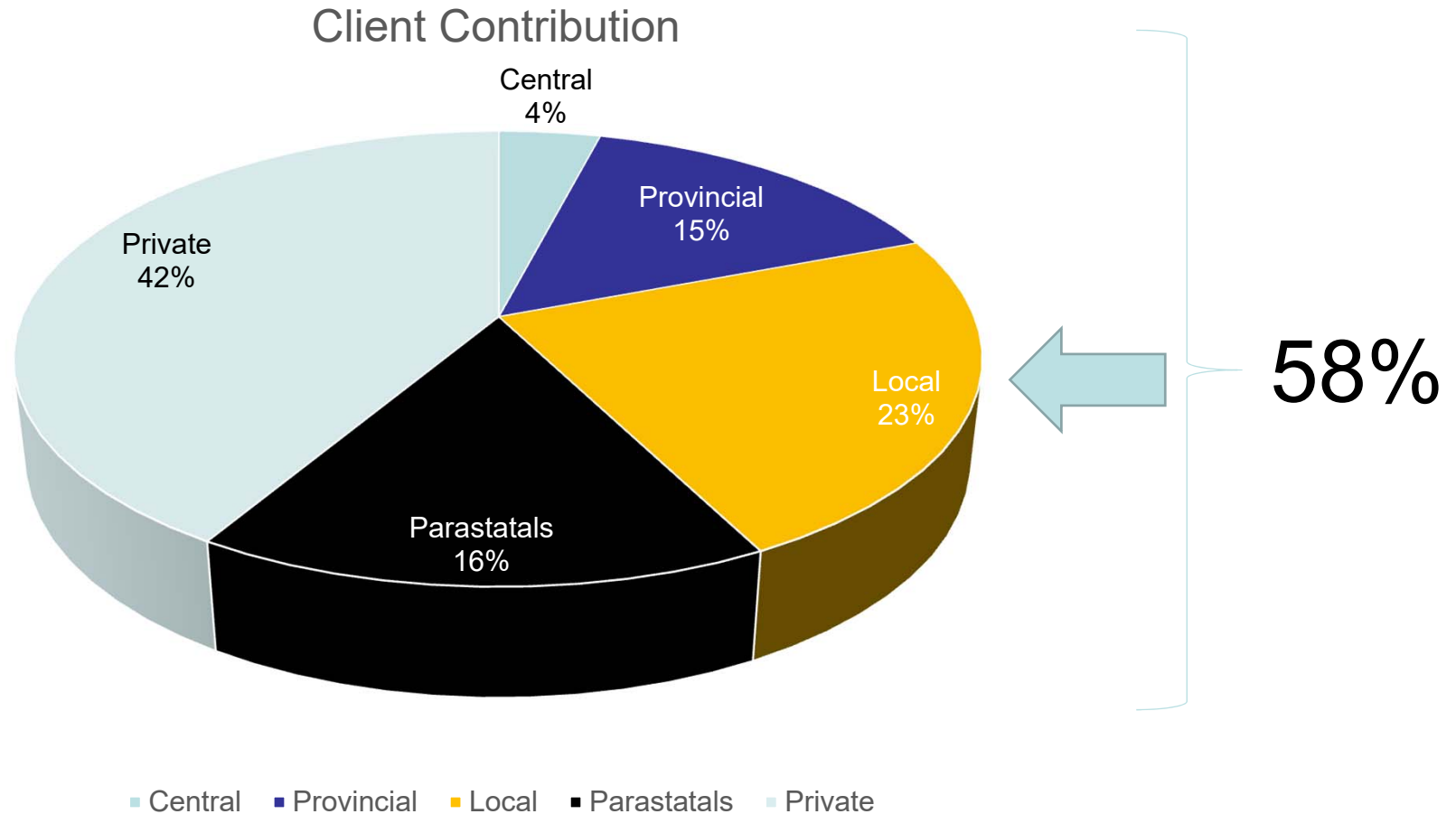
No growth in approvals for further private sector developments of Flats and Townhouses

Flats / Townhouses: SQM Approved
MAT Y-Y percentage change

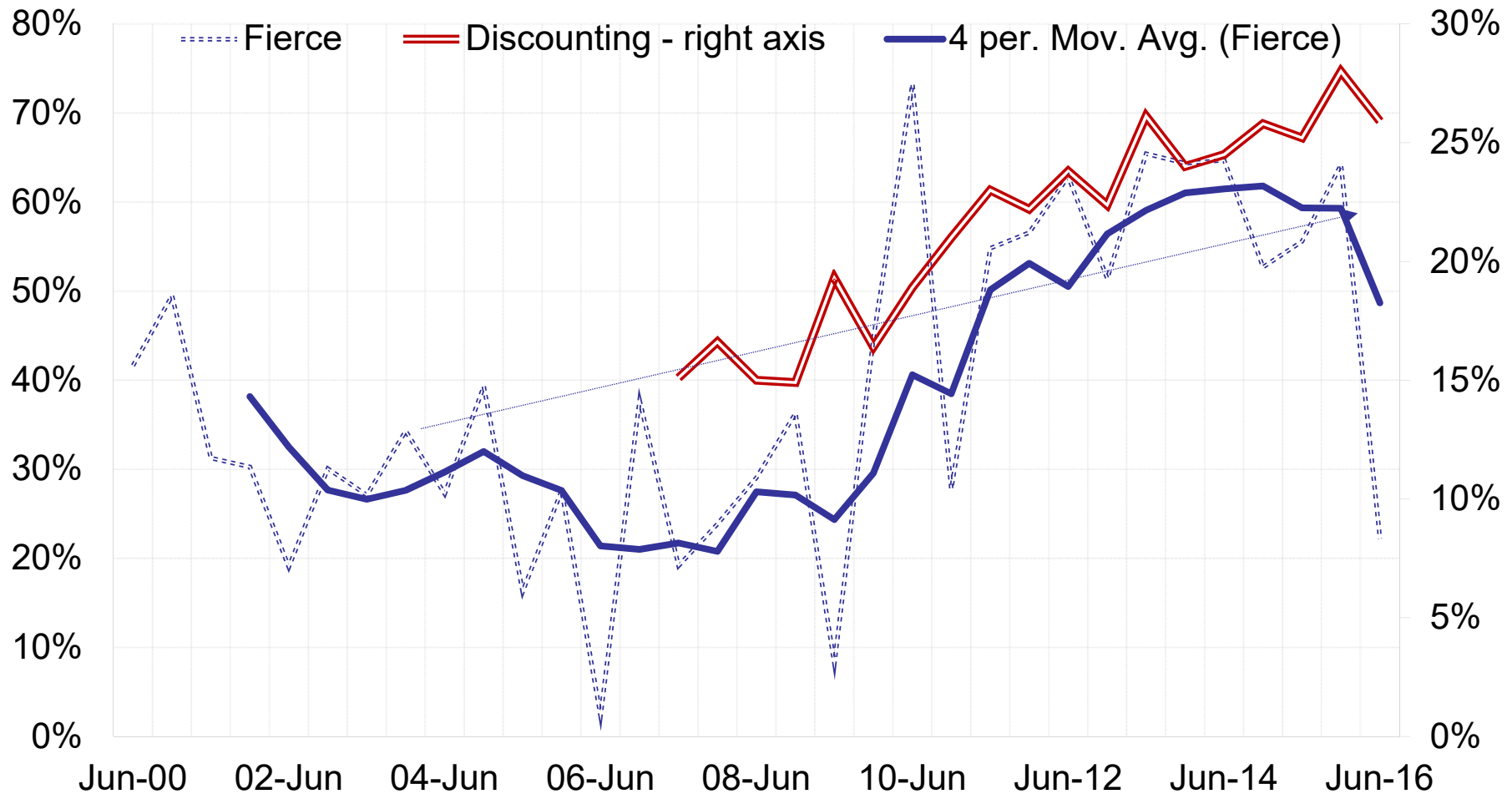


Flats / Townhouses contribute around 20% of total private sector residential approvals

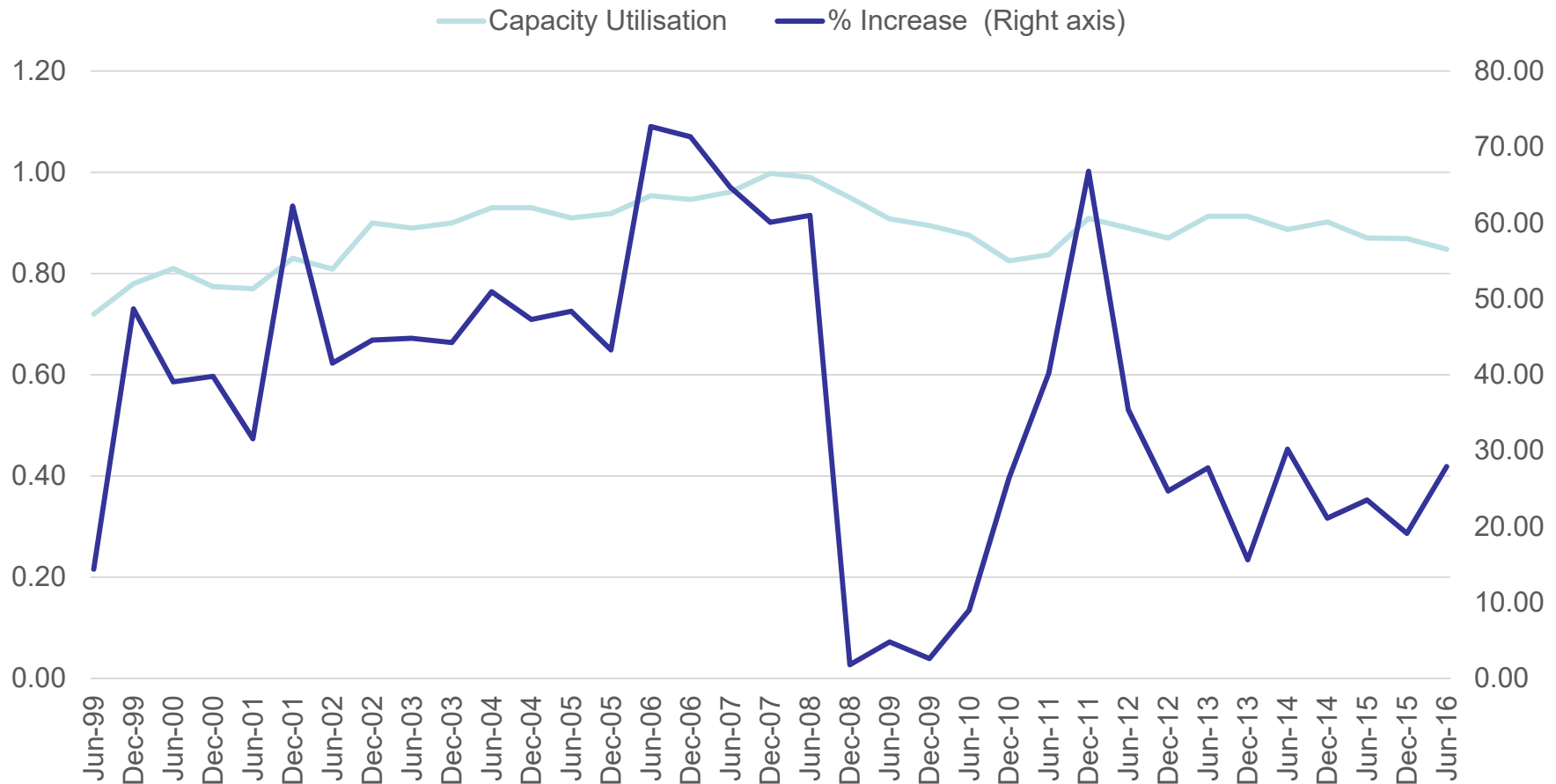
Earnings contribution by Client Type



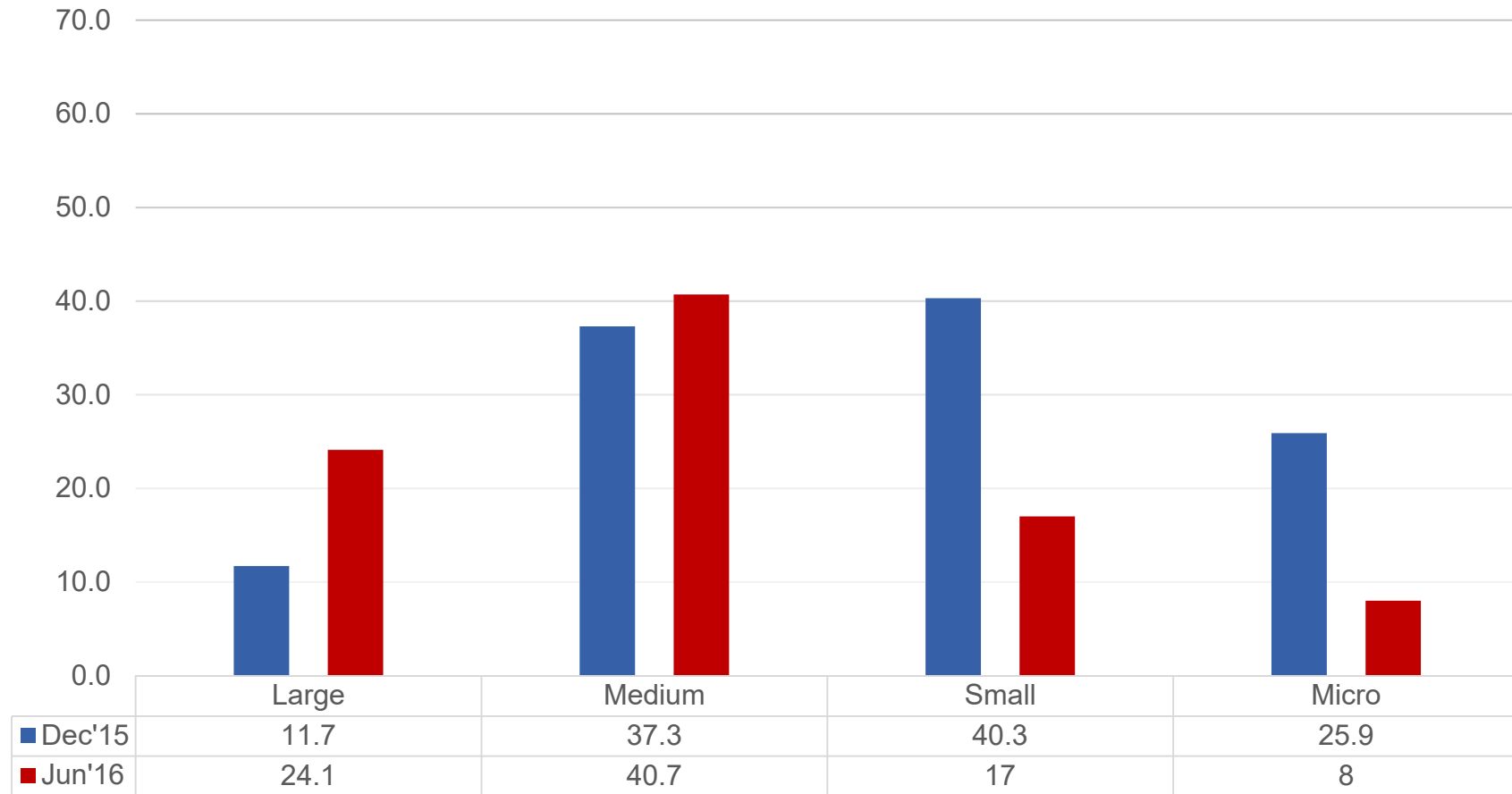
Fewer firms reported less fierce competition, slowing discount rates to an average of 25%



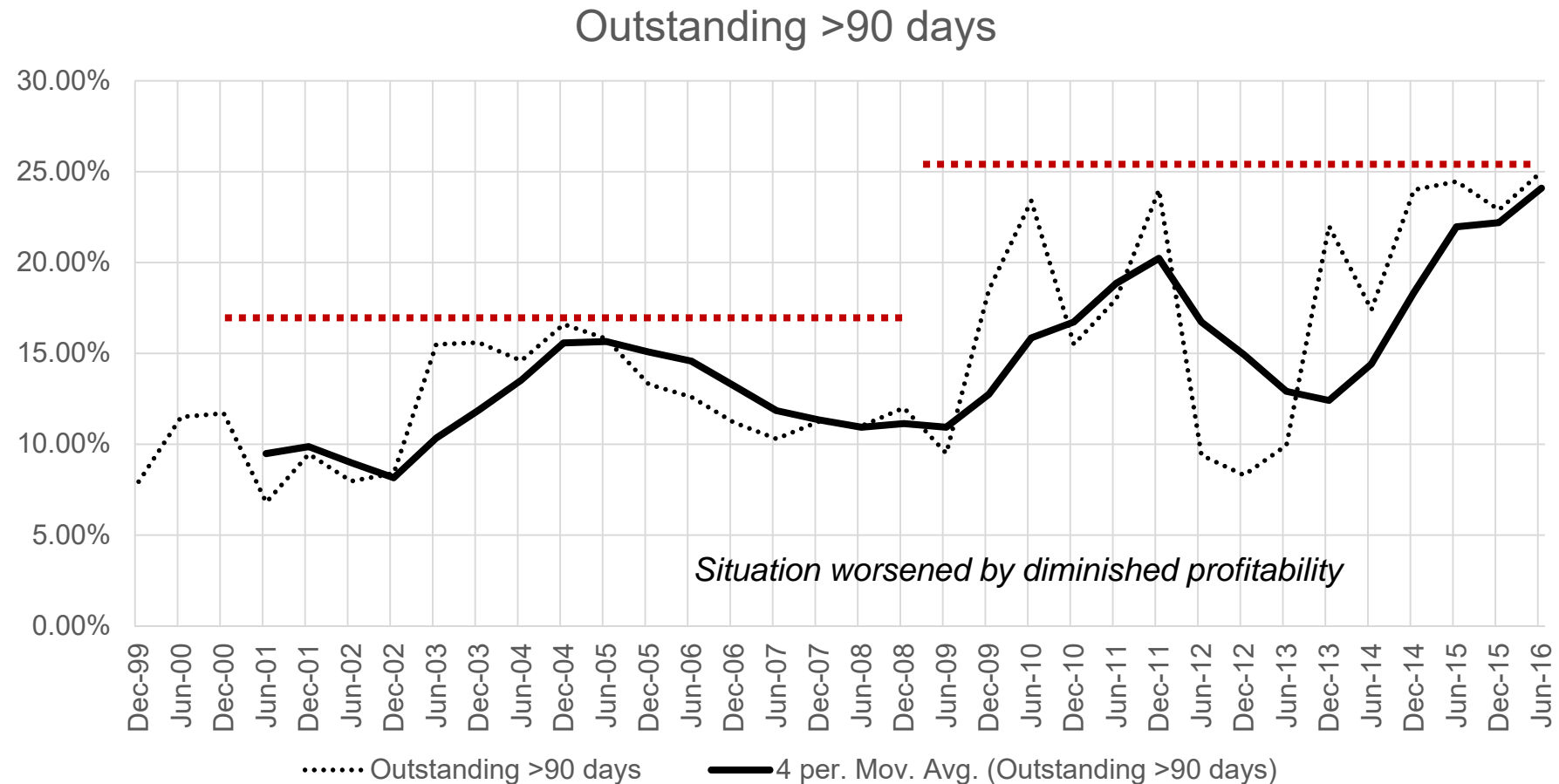
Firms not optimistic regarding improved capacity utilisation, while levels slow to 84 percent



Majority of firms expect capacity levels to stabilise, as fewer expect levels to improve



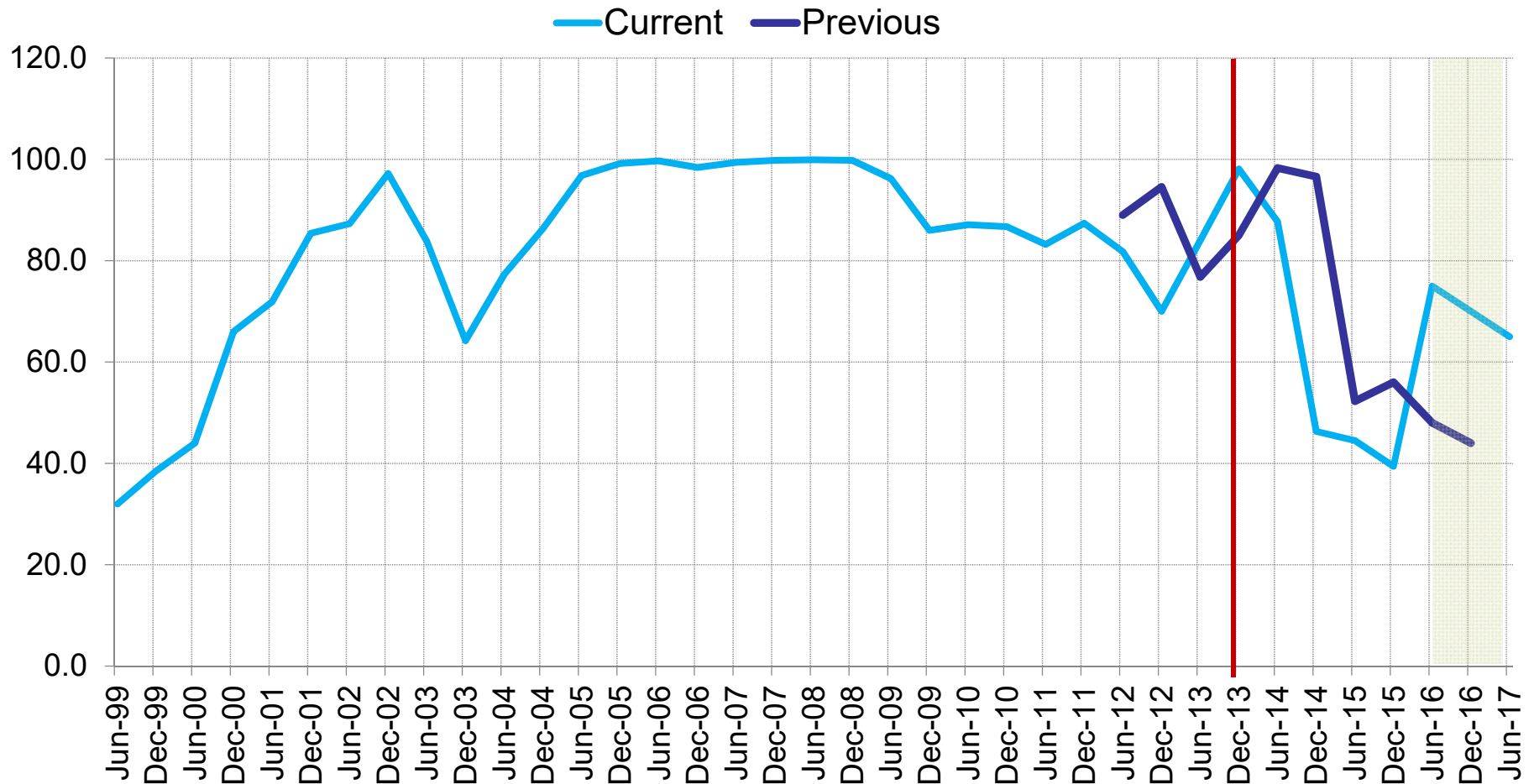
Payment outstanding for longer than 90 days rise to **25%** in first six months of 2016 from **23%** in H2 2015



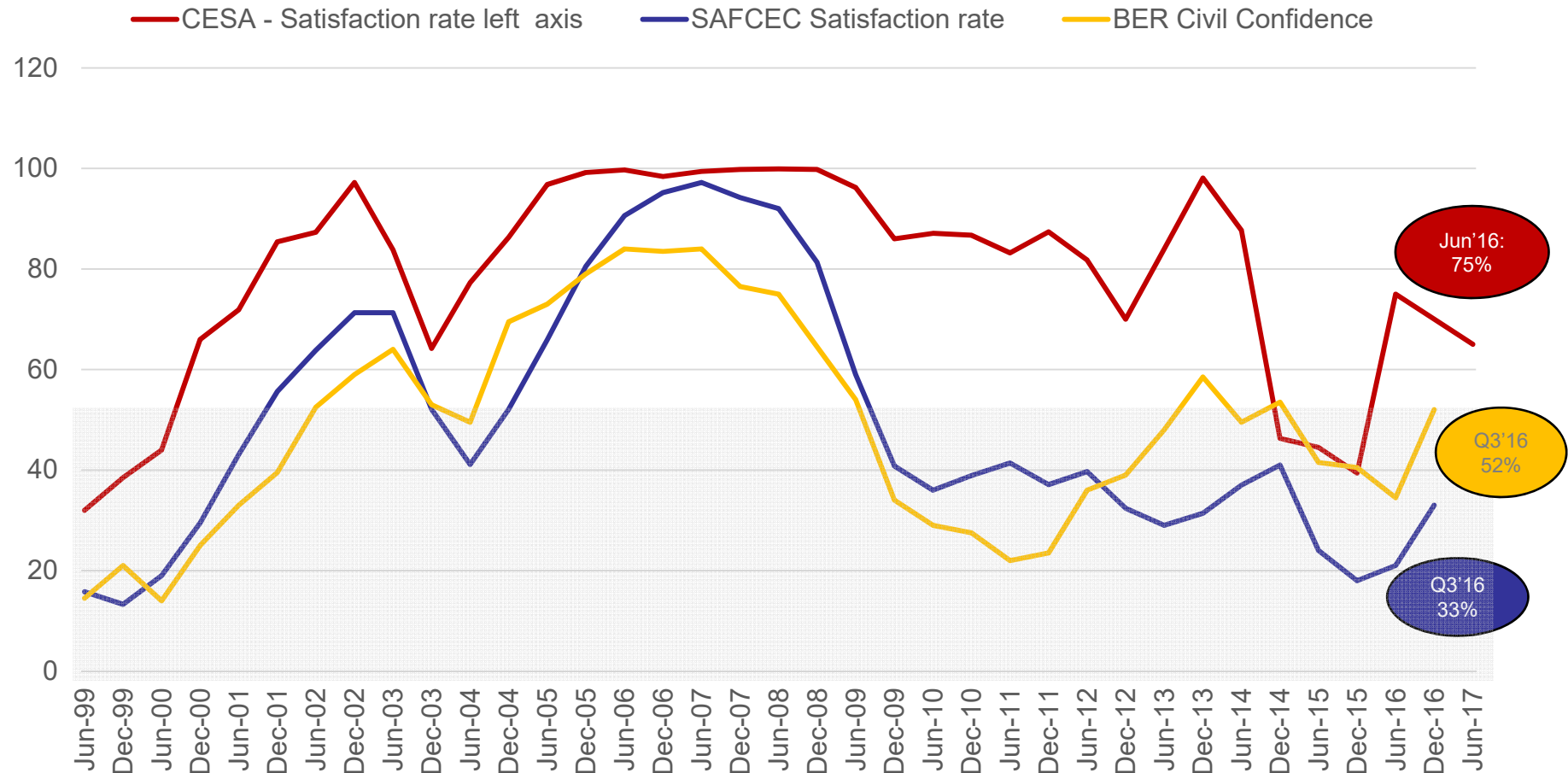
Prompt Regulations

Draft prompt payment regulations are delayed by the CIDB Act which doesn't make provision for regulations to be enforced. Dept of Public Works is currently preparing draft changes to the Act which will then provide Regulations to be issued.

Consulting Engineering Industry Confidence Index (Satisfaction rate)



Consulting Engineers outlook suggest further pressure on the construction industry



Source: FNB, SAFCEC, CESA

Key Challenges

- More emphasis on localisation of professional services to mitigate foreign competition
- Lack of a definitive project pipeline (NDP?)
- Weak private sector confidence
- Procurement
 - Greater transparency in procurement process
 - Standardisation of procurement procedures
 - Procurement on price and BBEEE, with little or no regard to functionality, quality, qualifications, experience, capability and/or innovation.
- Complexities around BBEEE requirements, difficult to comply due to shortage of skills
- Quality of Client's technical personnel – skills shortages regarded as one of the most significant institutional challenges (client bodies), also affecting service delivery as municipal level
- Low growth economic environment, project implementation delays, budget cuts on infrastructure allocations

Thank you

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