



SAFCEC
READY TO DELIVER

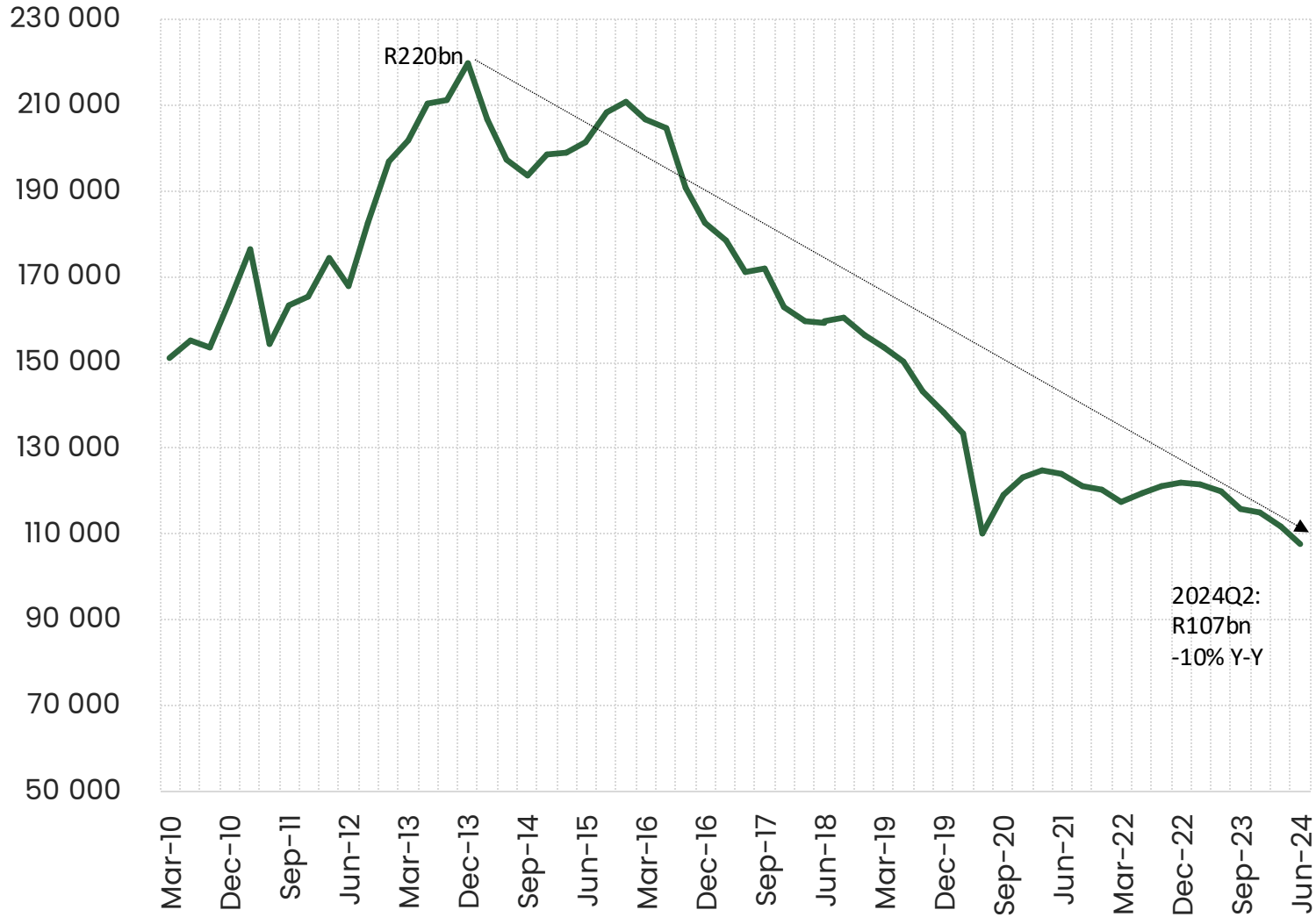
State of the South African Civil Industry

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31 October 2024

GFCF: CONSTRUCTION WORKS

Rm, 2015 Prices, Annualised (SARB)

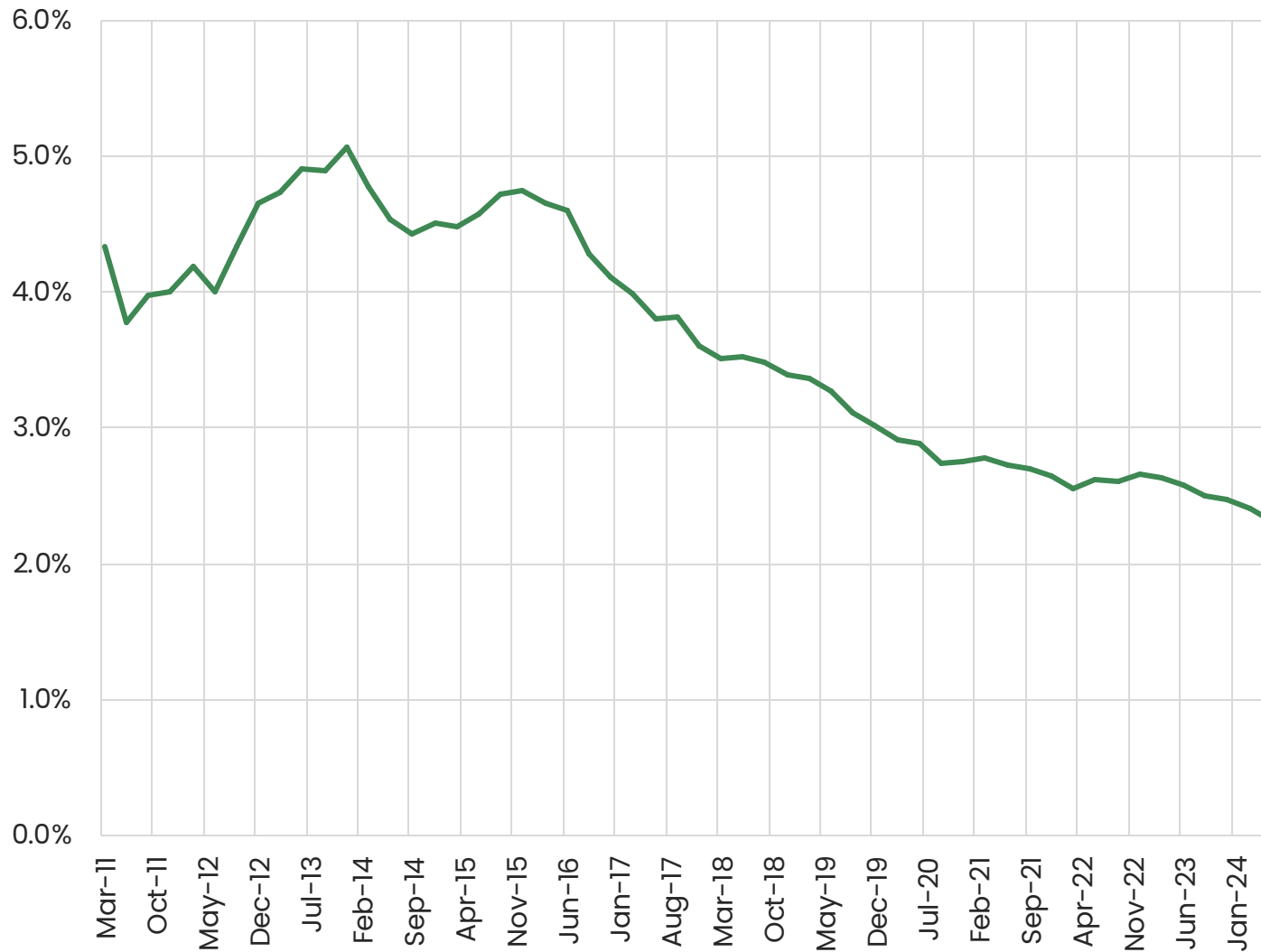


- Industry shrunk to half its size over the last decade
- Lost 51% (R113bn) in investment in real terms since 2013
- Currently even worse off compared to Covid-Period, lowest level in at least the last 14 years.
- Industry is in a critical state of survival, while economic growth is being jeopardised due to a growing infrastructure deficit
- Moderate increase in investment in 2022/23, has been reversed in the last four quarters, partly due to the tapering off of investment in renewable energy projects.
- Machinery and Equipment distorts underlying trends in the construction sector.
- Any potential recovery is coming off a near record low base.

Source: South African Reserve Bank

GFCF: CONSTRUCTION WORKS

Percentage of GDP



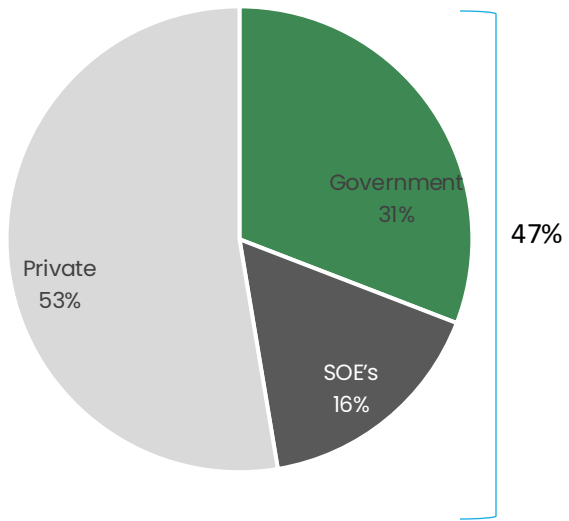
Source: South African Reserve Bank

- Industry's contribution to GDP slowed to 2,3 percent of GDP, from over 5 percent in 2013/14, the lowest level in over a decade.
- Yet the country faces a broad-based economic **and** social infrastructure collapse
- Infrastructure is a hot topic, but progress is slow
 - Government is its own worst enemy
 - Whilst the need is there, finances are lacking and borrowing is limited due to Junk Status in 2017
- Benchmark for developing economies range between 20% and 35% of GDP

Public Sector plays a prominent role in construction, and **contributes over 70% to the civil sector**

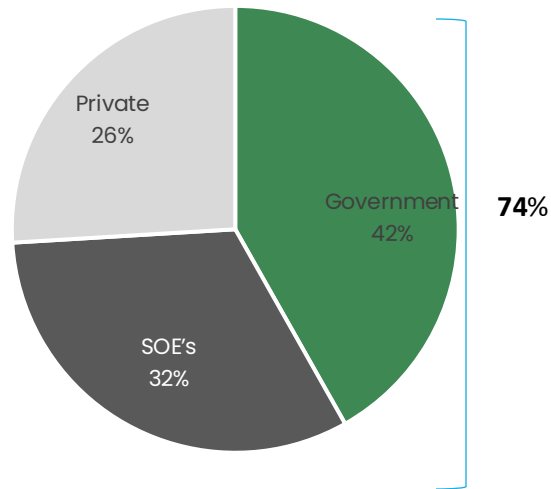
GFCF Total Construction By Client

2023: R385bn



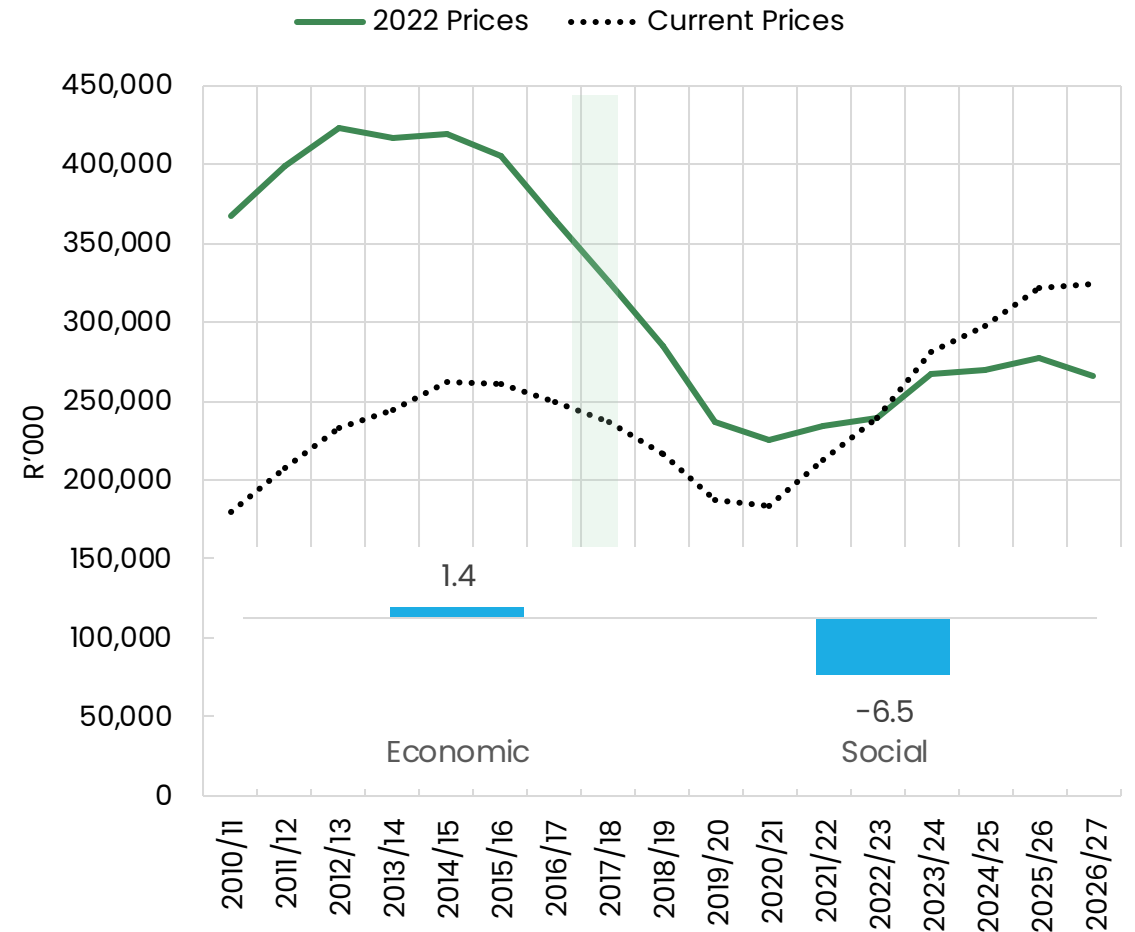
GFCF Construction Works By Client

2023: R189bn



Public Sector Infrastructure Expenditure

Budgetary allocations are not keeping up with inflation

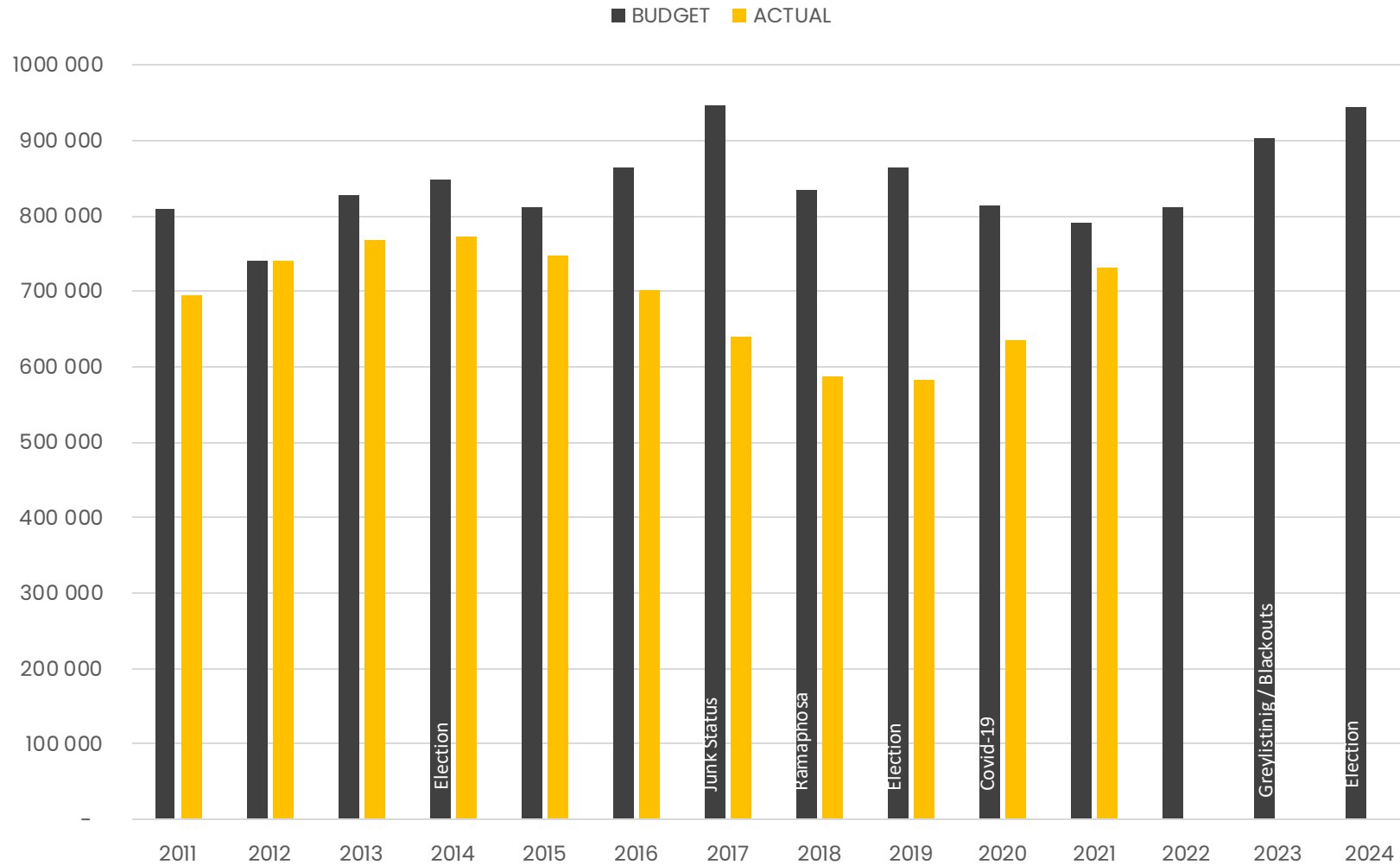


Source: South African Reserve Bank

Water & Sanitation: Strongest growth projected for 2024/25: 16%

Public Sector Infrastructure: MTEF Estimates vs Actual

Rm, Current Prices

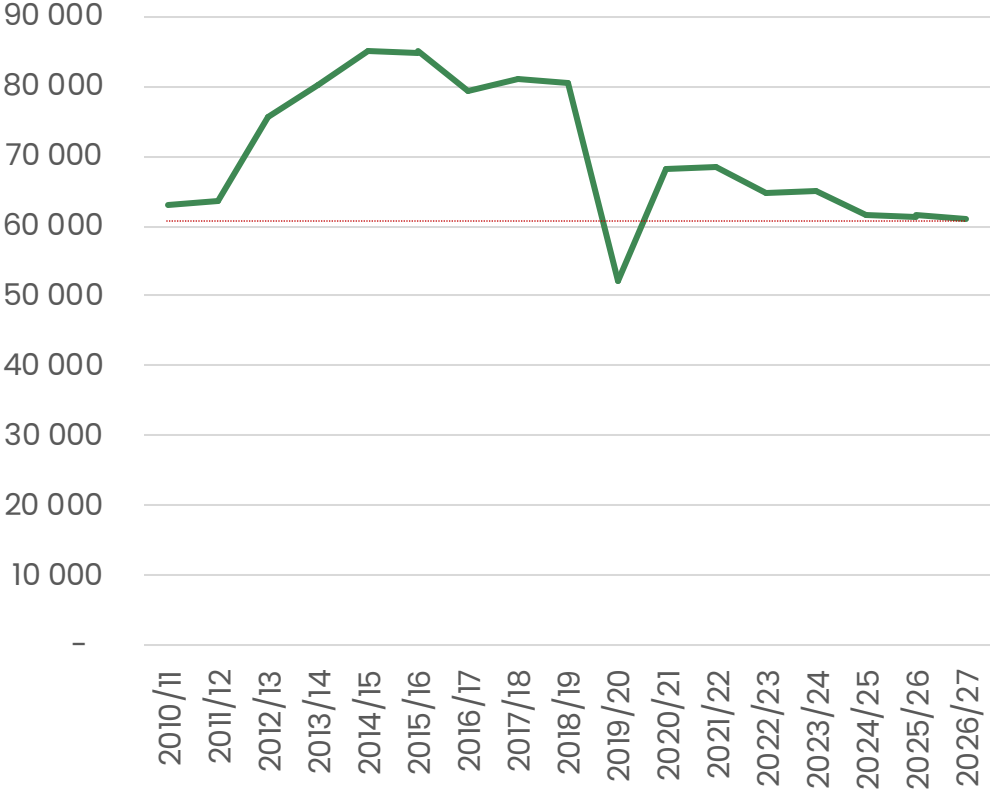


- Junk Status hit in 2017
- Limited borrowing for infrastructure funding and put severe pressure on the fiscus, while corruption and mismanagement continued
- **Record R947bn announced for the 2017 MTEF period, ended up in a near record low expenditure over the same period of just R639bn**
- Question remains what will happen with the R943bn projected over the 2024 MTEF period in the MTBPS and revisions in the 2025 Budget?

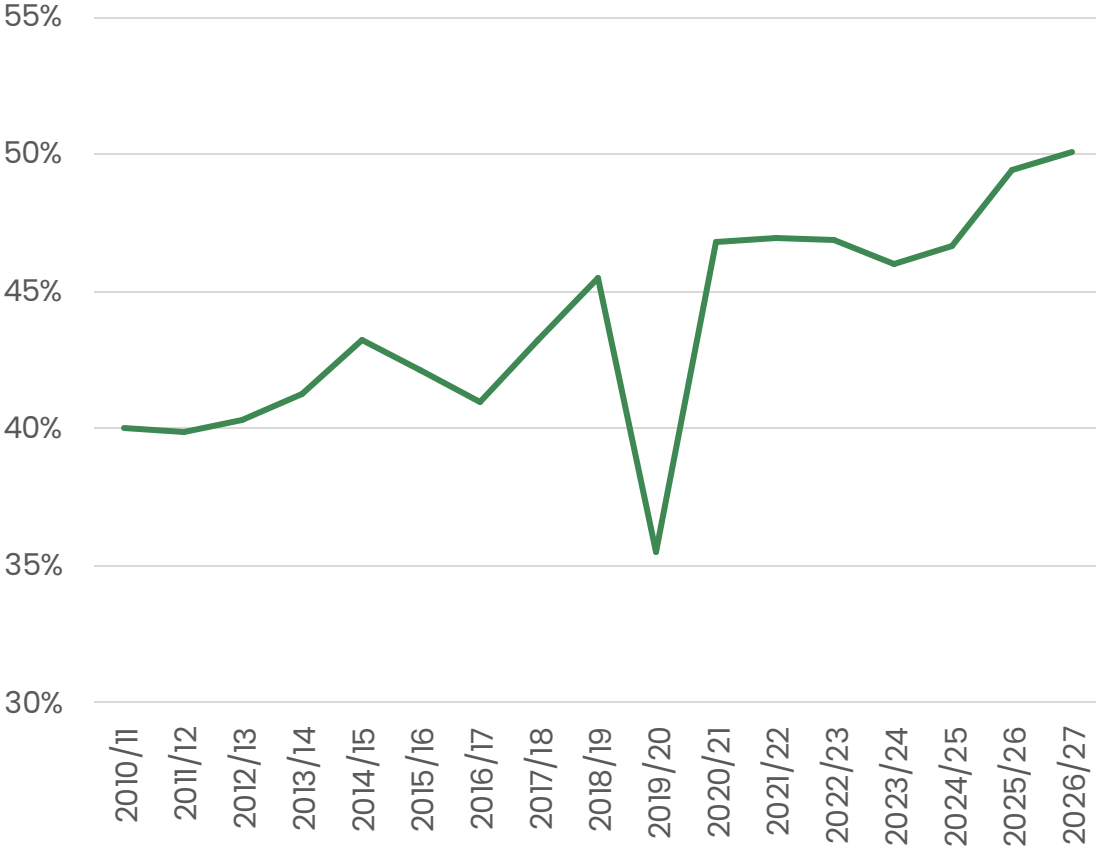
Source: National Treasury

Local government get larger share of smaller pie

Local Government: Infrastructure Actual and Projected Expenditure
Rm, Constant 2022 prices



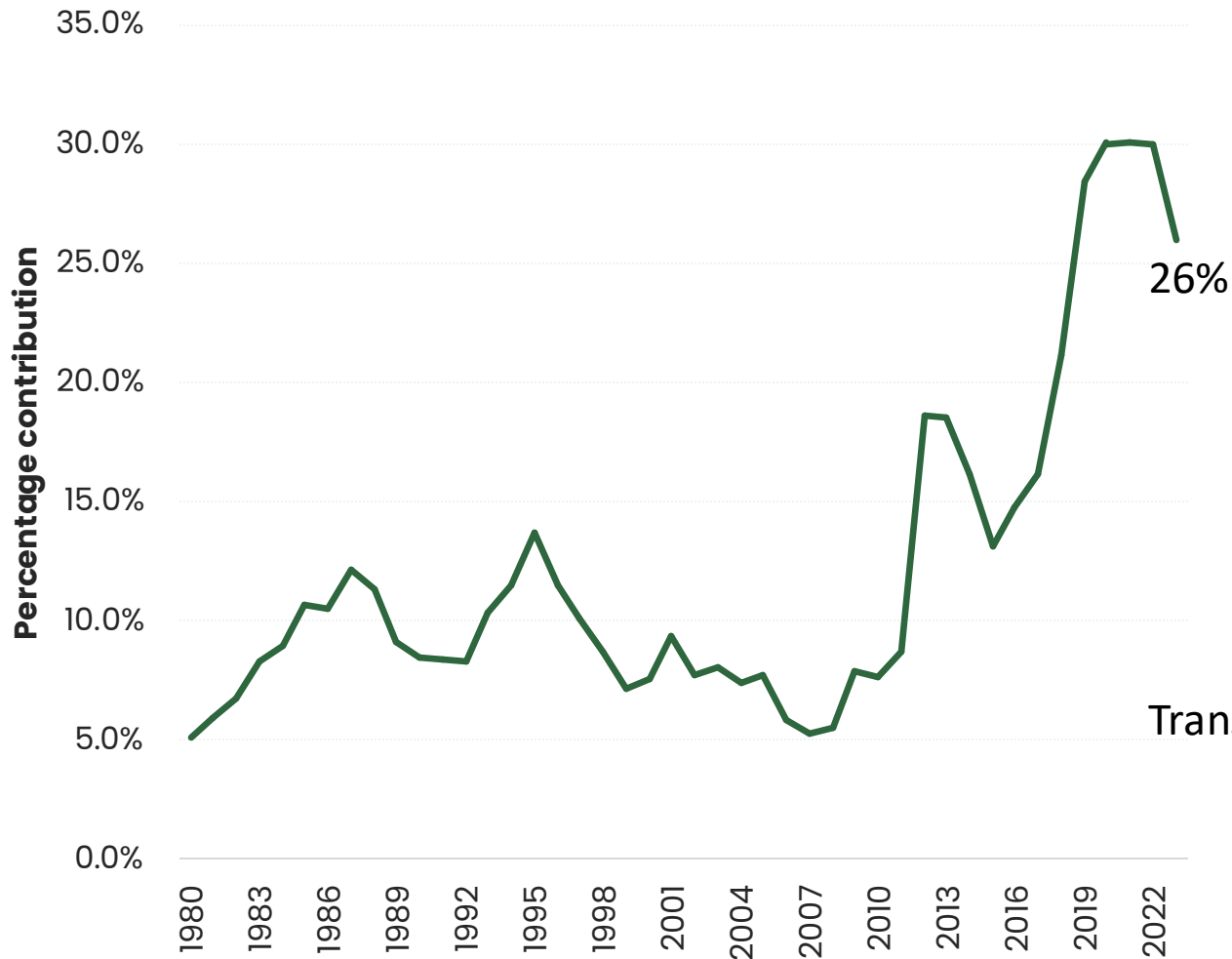
Local Government Percentage Share of total Government infrastructure spending (Excluding SOE's)



Source: National Treasury, Industry Insight

Private sector contribution to economic infrastructure development gradually increase

MTBPS: Privatisation reforms to be introduced in 2025/26

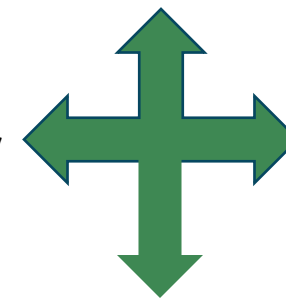


“Bold Transformation of infrastructure development”

- Budget Reforms (Conditional Grants)
- Infrastructure Funding Options
- Revision of PPP Regulations

Transmission Capacity

Water & Sanitation



Provincial and Local Governments

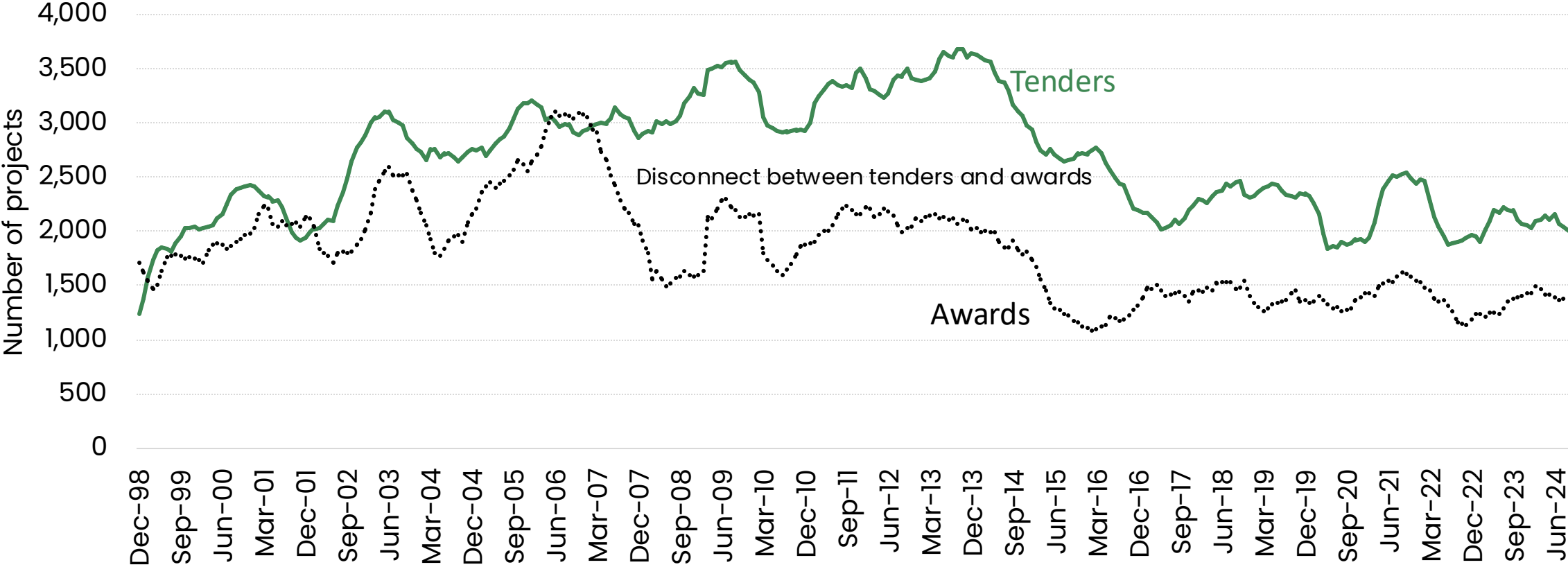
Source: South African Reserve Bank

Civil Tender & Award Activity (#)

Civil Construction Tenders vs Awards

Number of Projects

12-Month Moving Annual Total

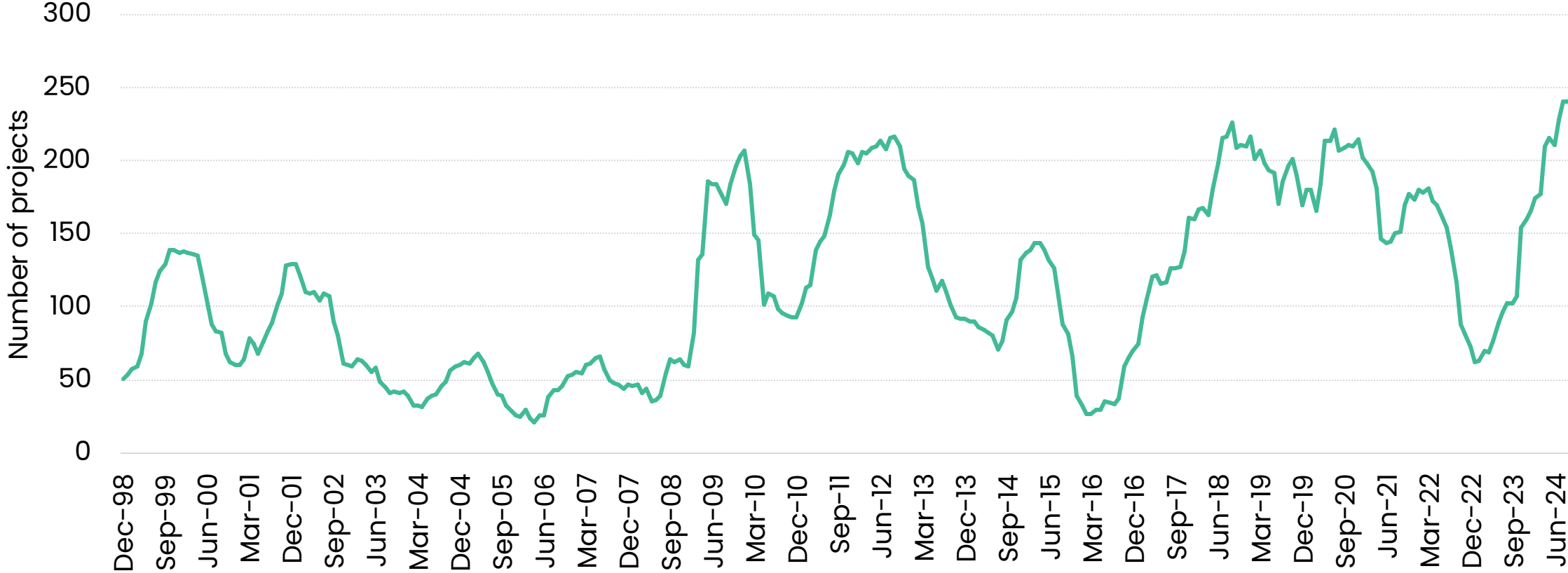


Source: Industry Insight, Databuild

Civil Project Postponements (#)

Number of Projects Postponed exceed Junk Status (2017) and Covid (2020)

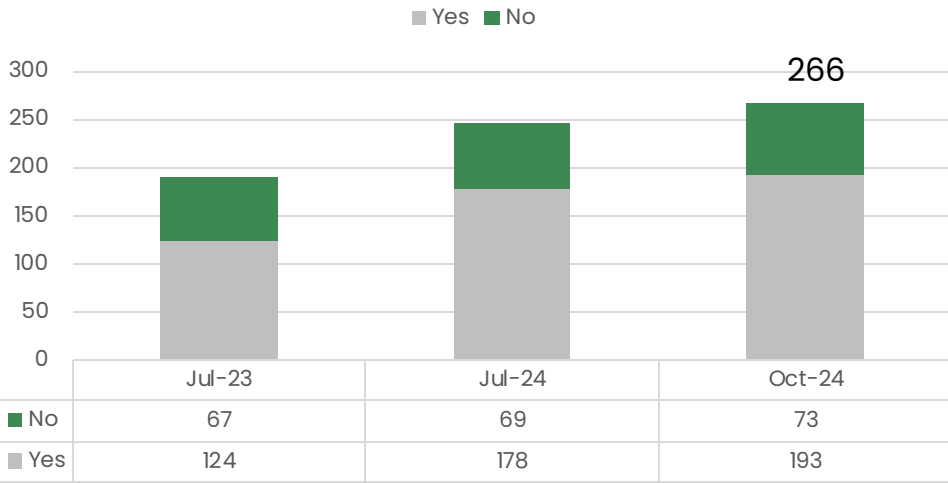
12-Month Moving Annual Total



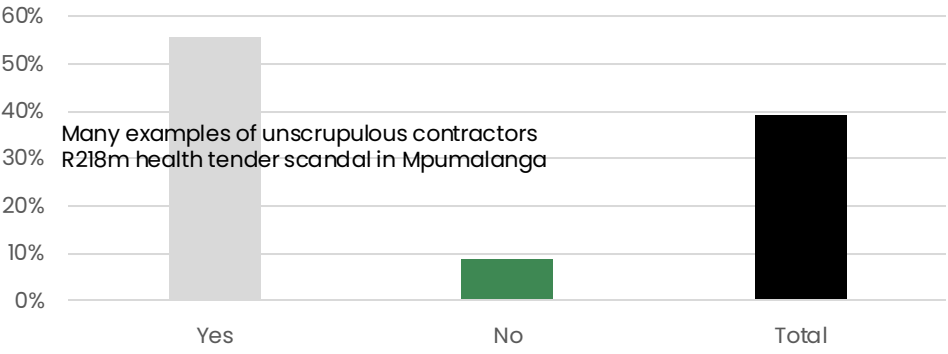
Source: Industry Insight, Databuild

Competition: Grade 9 registered contractors increase by 39% since July 2023, over 70% potentially emerging contractors

CIDB Grade 9CE Active Registered Contractors: Potentially Emerging



Percentage Change: Oct-24 vs Jul-23



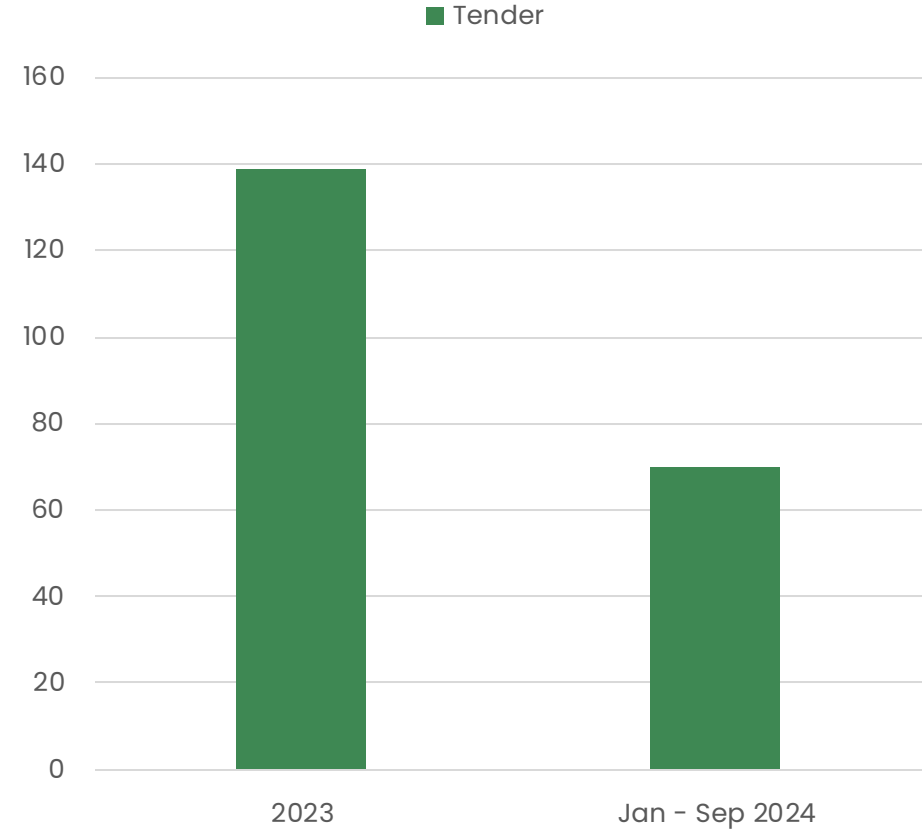
Many examples of unscrupulous contractors
R218m health tender scandal in Mpumalanga

Source: CIDB, Industry Insight, Databuild

Grade 9 Civil Construction Tender Activity

2023 vs Jan – Sep 2024

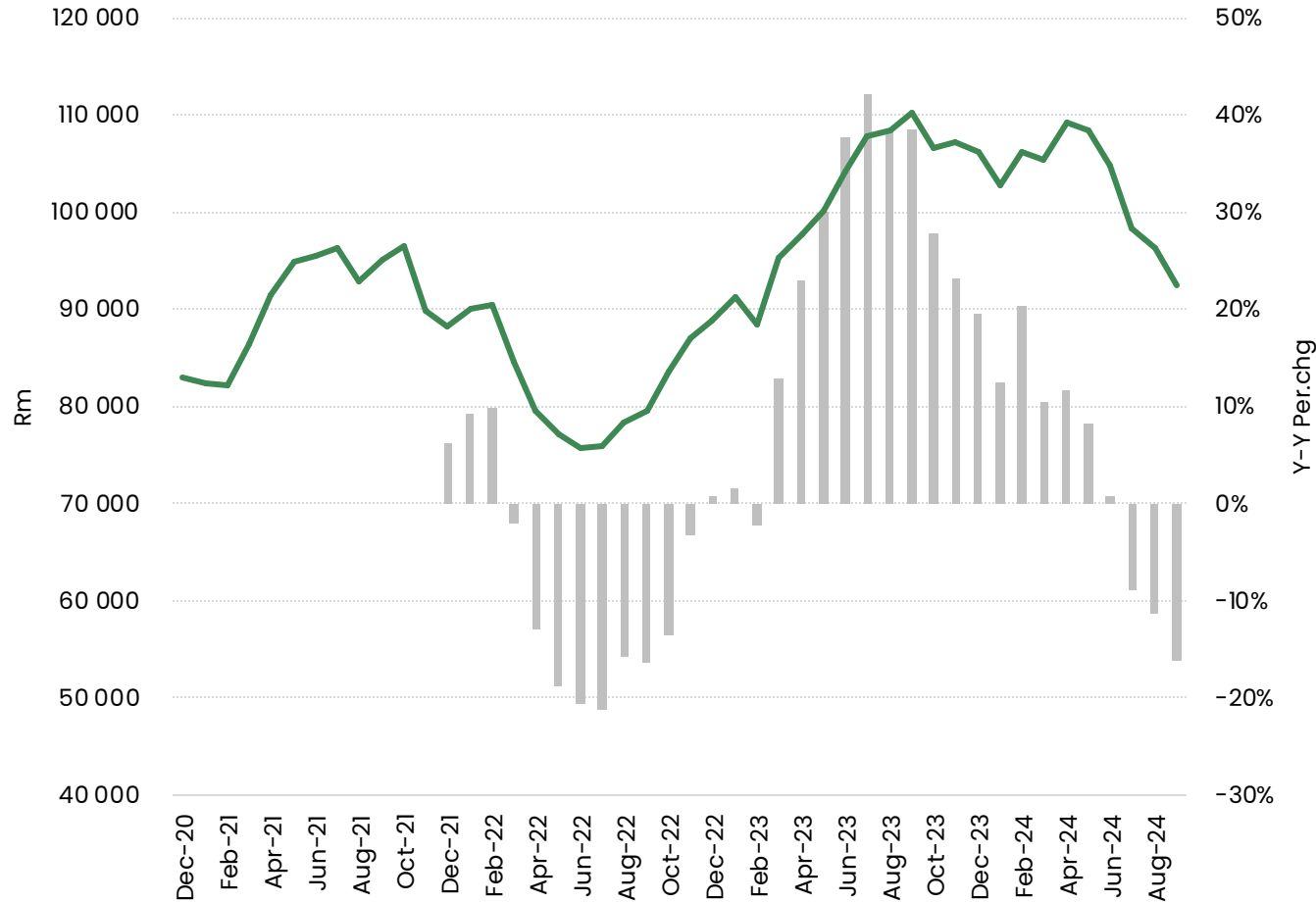
50% drop in Civil projects out to tender, postponement rate increased from 2% to 11%



Civil Estimated Tender Values

Constant 2023 Prices: 12-Month Moving Annual Total

Momentum in 2023 not sustained post-election



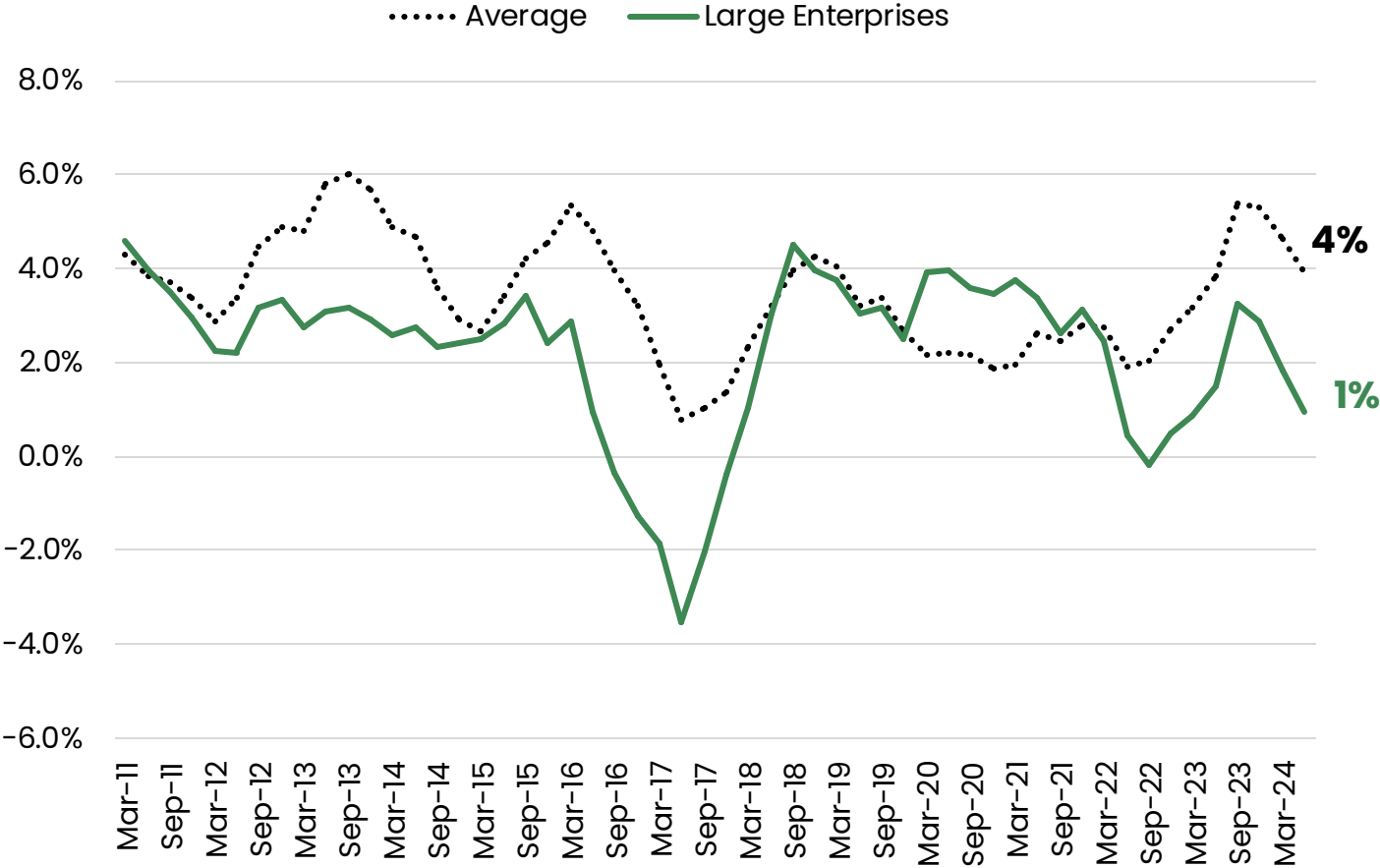
January – September 2024

Province	2022	2023	2023 YTD	2024 YTD	MSHARE	CHG (RANDS)	Y-Y PER.CHG
Eastern Cape	8 878	11 030	8 564	7 294	10%	- 1 270	-15%
Free State	3 123	7 913	5 691	3 665	5%	- 2 026	-36%
Gauteng	11 015	15 148	12 396	7 453	11%	- 4 943	-40%
Kwazulu Natal	17 954	22 910	16 429	18 102	26%	1 673	10%
Limpopo	11 687	10 765	7 890	8 323	12%	433	5%
Mpumalanga	11 302	13 985	10 114	8 325	12%	- 1 790	-18%
North West Province	3 679	4 935	3 681	3 690	5%	9	0%
Northern Cape	2 879	2 362	1 682	3 393	5%	1 711	102%
Western Cape	13 660	15 895	12 422	9 284	13%	- 3 138	-25%
Total	84 177	104 942	78 868	69 527	100%	- 9 341	-12%

Source: Databuild, Industry Insight

Profitability remain under pressure

Profit/Loss Margin: Total Construction
5-Quarter Moving Average



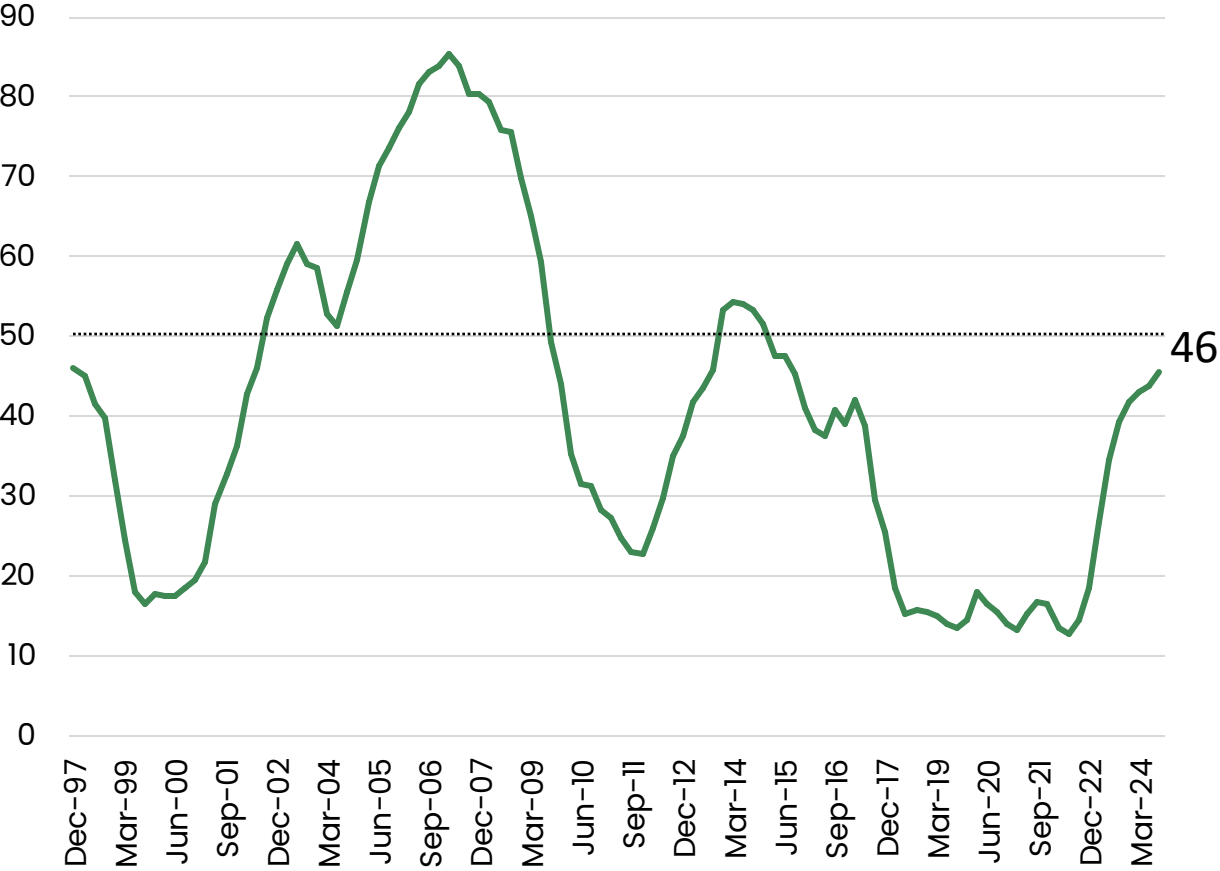
- Recovery in margins in 2023, supported by smaller size companies (R2m – R80m)
- Larger companies (>R350m/annum) significantly underperform against the industry average
- On average represent 45% of total construction turnover

Source: Stats SA

Construction Confidence levels point to some recovery...for now

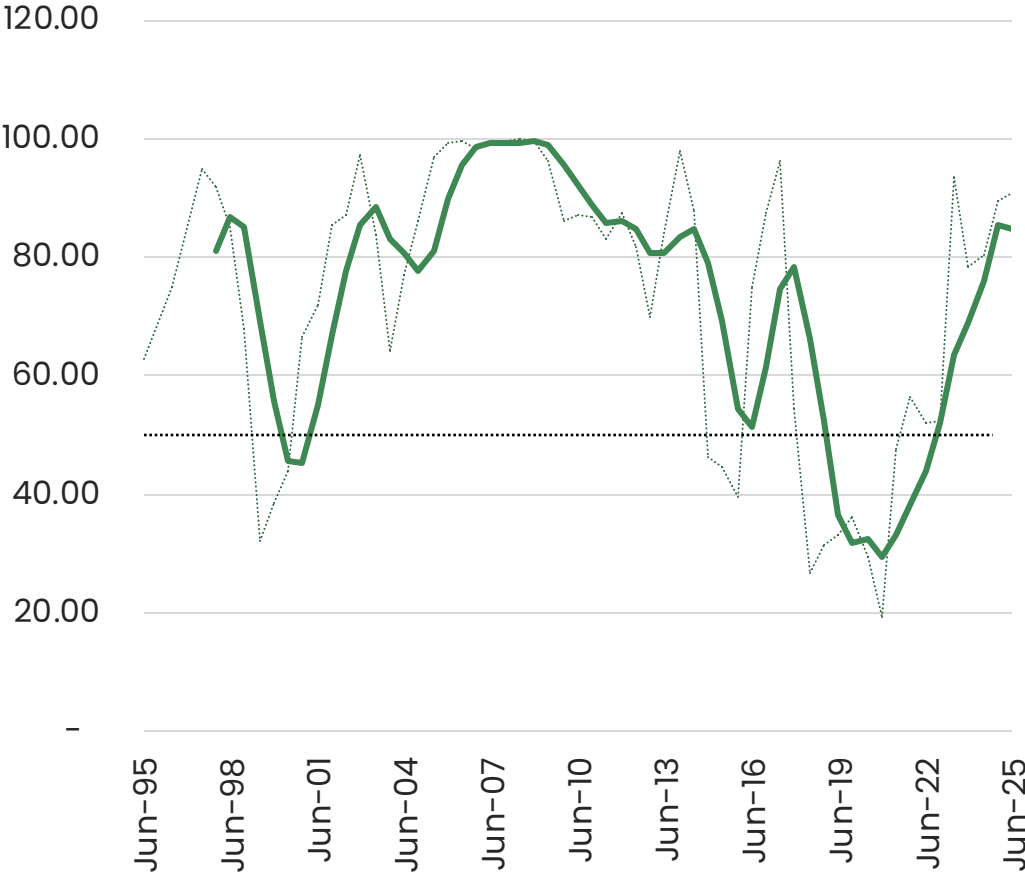
Civil Contractors confidence recover to best level since 2016

4-Quarter Moving Average



Consulting Engineers outlook improved

2-Year moving average



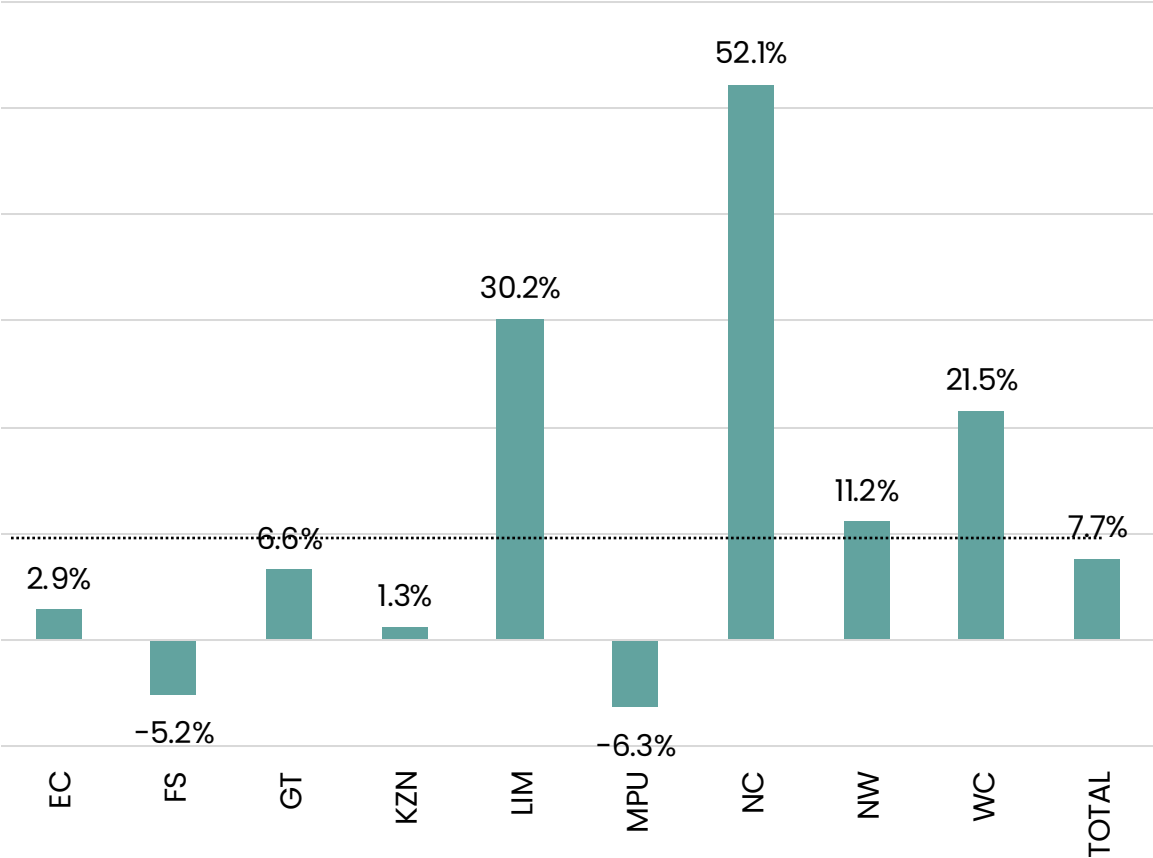
Source: FNB/BER, CESA



Buildings and Other Fixed Structures: 2024/25

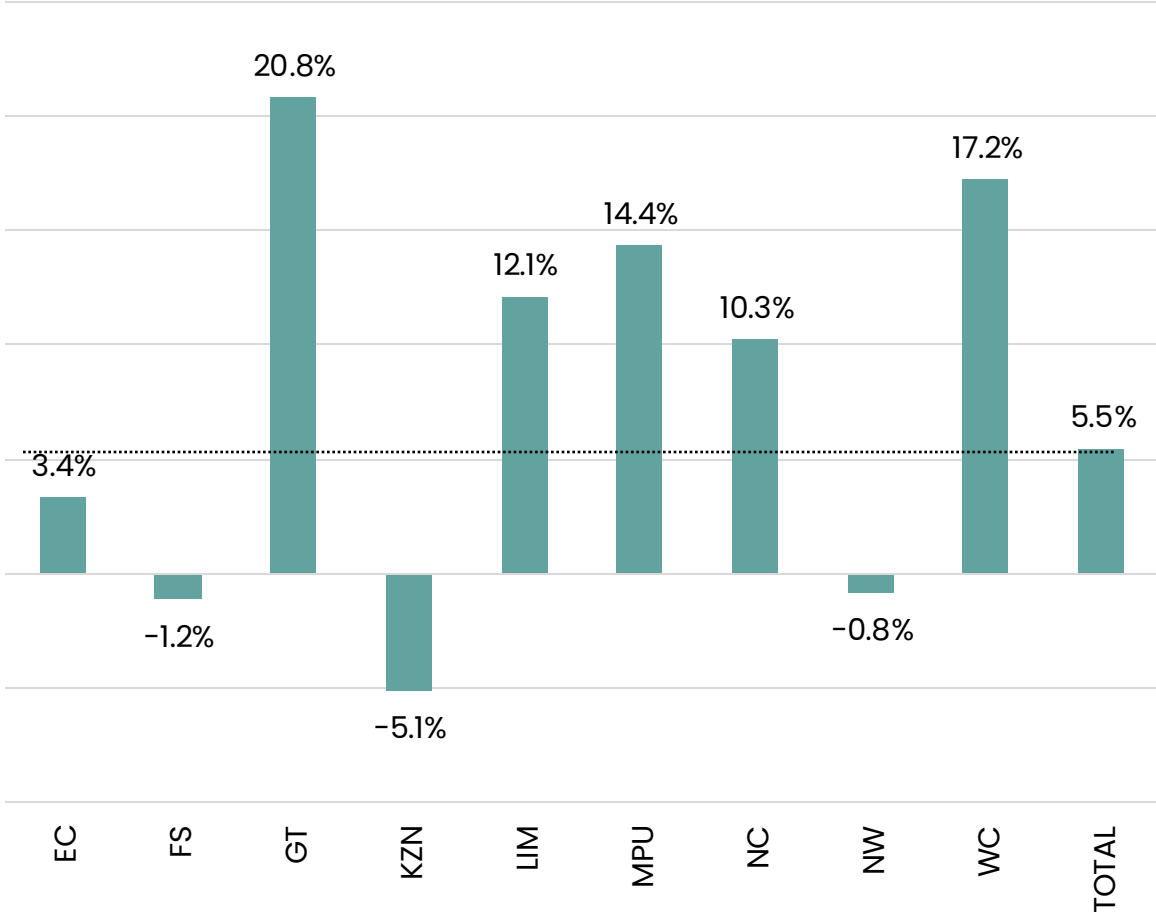
Provincial Budgets: R32bn

Y-Y Percentage Change



Roads Maintenance Grant R 16bn

Y-Y Percentage Change

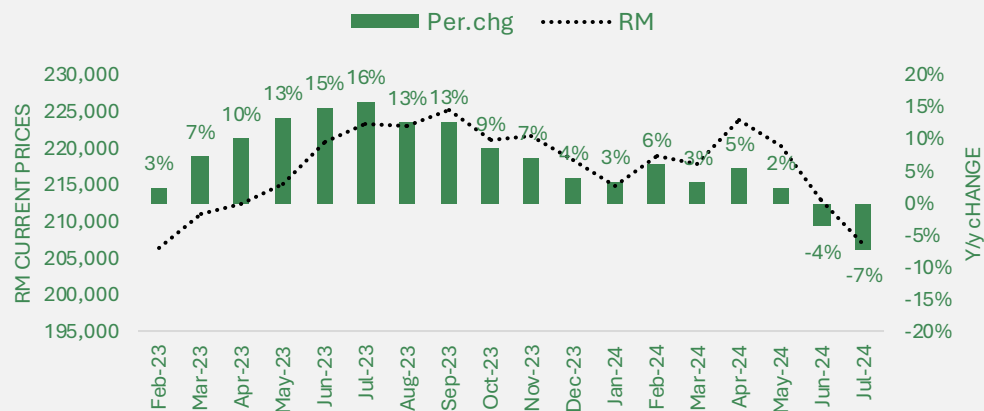


Source: FNB/BER, CESA

Outlook

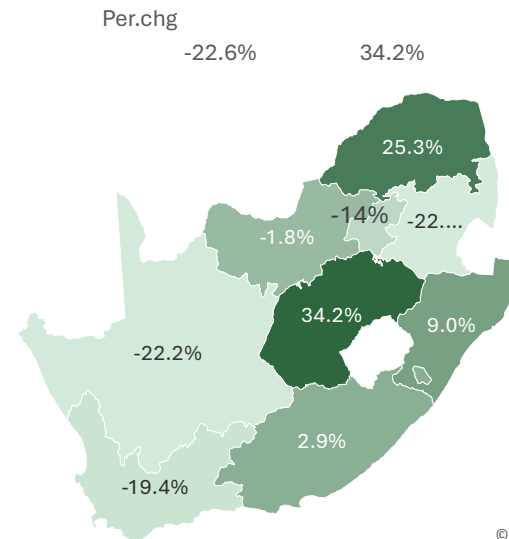
Provincial Construction Pipeline: R207bn as at July 2024

NATIONAL SA CONSTRUCTION POTENTIAL PIPELINE (RM)

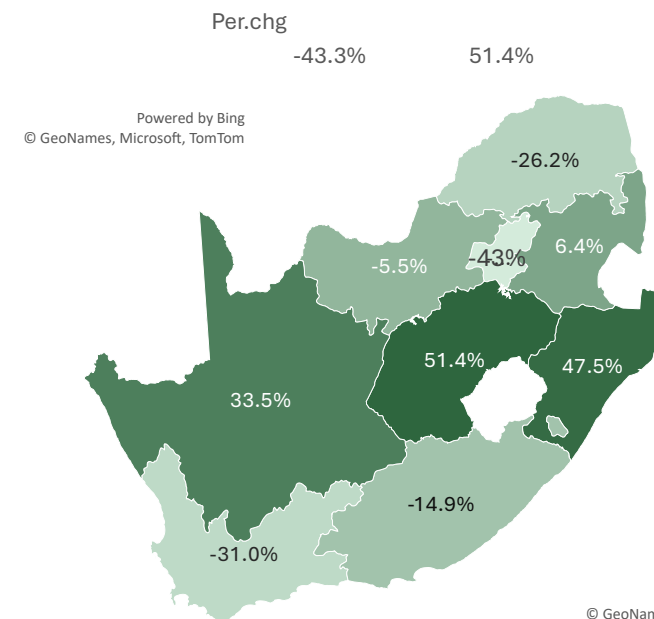


	Mar/23	Jun/23	Sep/23	Dec/23	Mar/24	Jun/24	Jul/24
GAU	-12.2%	9.4%	7.6%	1.7%	-15.4%	-22.8%	-22.8%
WC	23.2%	16.4%	10.1%	-9.3%	-7.8%	-20.6%	-23.0%
EC	-25.1%	20.5%	15.3%	25.8%	8.2%	-3.2%	-5.4%
KZN	10.4%	6.1%	12.4%	7.2%	23.4%	20.0%	25.7%
LIM	69.1%	61.8%	19.0%	-8.3%	0.8%	0.4%	-12.8%
NWP	-16.9%	12.8%	-15.4%	-8.1%	-25.7%	-7.2%	-3.4%
MPU	44.6%	9.9%	18.7%	12.4%	29.5%	32.2%	-5.6%
FS	-25.3%	15.5%	74.3%	110.0%	112.5%	49.6%	44.1%
NC	104.6%	19.8%	3.8%	-17.5%	2.8%	16.7%	9.3%
RSA	5.9%	14.8%	12.4%	4.1%	3.3%	-3.5%	-7.2%

BUILDING INVESTMENT PIPELINE Y-Y PER.CHG



CIVIL INVESTMENT PIPELINE Y-Y PER.CHG



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Challenges

1. Because of Junk Status (2017) there are limited borrowing opportunities – Fiscal consolidation is key, manage debt and reign in government spending OR accelerate economic growth to increase revenue
2. **...but not just a “money” issue**
 1. Inability to spend budgets at provincial and local governments
 2. Lack of accountability continues, very little consequence for poor performance
 3. Corruption...sense of progress, albeit slow
 4. Construction Mafia – 30% procurement policy failure
 5. Choosing the right contractor to prevent delays and cost overruns
3. Remains low profit sector, with increased competition, including foreign players.
4. Is Privatisation the key to unlock accelerated infrastructure investment and ultimately economic growth? MTBPS gave a lot of attention on reforms to attract private sector investment.
5. Despite incapacitated local governments, allocations to municipalities were increased in the 2024 Budget, reaching 50 percent of total government infrastructure spend by 2026/27??

Source: South African Reserve Bank

Industry Insight

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