FINANCIAL TIMES
ft.com > companies > industrials >

April 29, 2013 9:07 am

Balfour Beatty shares drop on second profit warning in six months

By Gill Plimmer and Mark Wembridge

Balfour Beatty has issued its second profit warning in six months, blaming poor management in its UK division and the downturn in the building industry.

Shares in the construction company, whose recent projects include the widening of the M25 motorway, the rebuilding of Blackfriars rail station in London and the aquatics centre for the 2012 Olympic Games, tumbled 11 per cent in early trading as it said that profits this financial year will come in at about £50m – or 20 per cent – lower than expected.

Construction remains the weakest sector of the UK economy, with recent Office for National Statistics figures showing that construction spending fell 8.4 per cent in the year to the end of March and is down 18.9 per cent from its peak five years ago. Infrastructure spending dropped 12 per cent in 2012 and roads construction by 44 per cent.

But Balfour's problems have been exacerbated by poor management and a restructuring, which saw it cut 600 staff – mostly managers – from its 28,000-strong UK workforce in the six months to January.

Andrew McNaughton, who joined as chief executive in April, plans to take charge of the UK division after an internal review found significant failings and "specific instances of poor operational delivery".

Balfour said several clients had been aggressive on both the pricing and delivery time for projects and that subcontractors had missed deadlines as a result. Most involved a series of smaller £1m to £2m commissions to build student accommodation and care homes in the southeast of the UK.

Mr McNaughton said the problems were a symptom of the tough economic environment. "The local management have been taking risks on pricing and delivery. They have been assuming they could deliver more quickly than they could and when they get that wrong, we pay the price as we pay the cost of the over-run."

Construction accounts for 65 per cent of business at Balfour, which also provides facilities management and consultancy services in 80 countries. The industry in the UK has struggled

to recover since the 2008 credit crunch, as public sector cuts and deteriorating business confidence squeezed margins and forced builders to chase smaller contracts.

Balfour also said there would be a £10m dent to profits from its German railway operations, which are struggling under the weight of continued uncertainty in the eurozone. Last month Balfour confirmed it plans to sell most of its businesses in continental Europe in favour of seeking growth in US transport, Asia and the Middle East.

Andy Brown, analyst at Panmure Gordon, said: “While we know that the UK market is a tough place it appears that the business review has thrown up operational issues. Clearly these need to be resolved swiftly to ensure investor confidence can return.”

Mark Howson, analyst at Oriel Securities, said: “We view this as somewhat disappointing given comments from peers such as Kier Group that UK construction markets had not worsened over the past six months. It will cast a negative shadow over most of the sector today, but we think a lot of this is Balfour specific, being slow to react to these trends.”

The profit warning prompted analysts at Bank of America Merrill Lynch, Balfour’s house broker, to lower its full-year operating profit guidance from about £255m to £205m. In 2012, the construction and infrastructure group reported operating profit of £310m from revenues of £10.9bn.