AVENG LIMITED

(Incorporated in the Republic of South Africa)
(Registration number: 1944/018119/06)
ISIN: ZAE000111829
SHARE CODE: AEG
("Aveng", "the Company" or “the Group”)

TRADING STATEMENT, BALANCE SHEET RESTRUCTURING AND RECAPITALISATION, AND CAUTIONARY ANNOUNCEMENT

The Group will report improved financial results for the year ended 30 June 2020 on the back of good operational performance from McConnell Dowell and Moolmans. The first half of the financial year saw the Group restoring operational profitability with both core businesses generating profits and cash. During the second half, the COVID-19 pandemic resulted in lockdowns to various degrees in different sectors and jurisdictions, disrupting operational performance across the Group and reducing operating profit by approximately R380 million in the second half of the year.

The unprecedented challenges of COVID-19 were dealt with effectively as the Group demonstrated its agility and resilience in response to the pandemic. The Group’s diversity across customers, geographies, industry sectors and commodities provided risk mitigation and softened the impact on the overall business performance. Despite this risk mitigation, the COVID-19 pandemic created a liquidity shortfall during April and May 2020. This shortfall was managed through a short-term facility of R200 million by the Group’s South African relationship banks which was repaid in August 2020 and the savings contributed by staff, management and the Board taking salary and wage cuts of approximately R168 million. The Board extends its thanks to all employees for this contribution in such exceptional circumstances.

McConnell Dowell and Moolmans

The McConnell Dowell and Moolmans results for H1 FY2020 as reported in February 2020 represented a pleasing operating performance and were on track to deliver planned performance in the year to 30 June 2020.

McConnell Dowell’s underlying operational performance for the second half of the year was satisfactory in the circumstances, reporting a small operating profit. The business increased their revenues and underlying profits, together with a significant 60% increase in the order book to AUD1.8 billion. During the period (and as a result of the uncertainties surrounding the COVID-19 pandemic), the Board took the decision to accept a lower settlement offer on two long-standing claims. This decision bolstered liquidity by R508 million (AUD42.5 million) at a time of significant uncertainty but at the expense of a non-cash impairment of R225 million (AUD19 million). Combined with advance payments and firm government support in Australia and New Zealand, this will result in the business reporting a strong cash position with sufficient liquidity to support the business and growing order book going forward.

The Moolmans performance for the year was driven by COVID-19 related closures on all operations for the period from March to June 2020, contract renegotiations and extensions and substantial turnaround in underperforming projects. Despite the impact of the COVID-19 related shut down in South Africa, Moolmans will report a small operating profit for the year, representing a significant turnaround from FY2019.

Non-core operations

The Group continued its non-core asset disposal process and as at 30 June 2020 had received cash proceeds of R768 million. The following disposals were concluded during the financial year:

- October 2019 – Dynamic Fluid Control (DFC) for R114 million

- November 2019 – Building and Civil Engineering for R70 million
- December 2019 – Mechanical and Electrical for R72 million
- December 2019 – Rand Roads for R37 million
- Other Properties for R15 million

Following the sales of non-core assets, the Group continues to collect all South African outstanding performance and retention bonds thus continuing to de-risk the balance sheet. Outstanding bonds decreased by 32% to R1,1 billion in the year.

During the course of the year, management continued to negotiate with members of the consortium who had entered into a binding agreement to acquire the Infraset business. The buyer was unable to meet the condition precedent pertaining to funding and this transaction has lapsed. Aveng has continued to engage other parties who have expressed interest in the Infraset business.

Subsequent to year end, disposals were concluded in respect of GEL, Duraset, REHM Grinaker, Infraset Pietermaritzburg and various properties totalling R54 million. These individual disposals to unrelated parties did not require separate disclosure in terms of the JSE Listings Requirements.

Financial results for the year ended 30 June 2020

In accordance with section 3.4 (b) of the JSE Listings Requirements, issuers are required to publish a trading statement as soon as they are satisfied that a reasonable degree of certainty exists that the financial results for the period to be reported on next will differ by at least 20% from the financial results of the previous corresponding period.

Shareholders are advised that the financial results for the year ended 30 June 2020 will reflect an improvement from the prior year as follows:

- Basic loss for the year is expected to be between R1 149 million and R1 094 million, representing an improvement of between 32% and 35% from the R1 680 million loss reported for the year ended 30 June 2019.
- Headline loss for the year will improve to between R979 million and R931 million, representing an improvement of between 37% and 40% from the headline loss of R1 545 million in the prior year.
- The HEPS loss is expected to improve to between 5.0cps and 4.8cps, representing an improvement of between 48% and 51% compared to a loss of 9.7cps for the year ended 30 June 2019. The EPS loss will be between 5.9cps and 5.6cps, representing an improvement of between 44% and 46% against a reported loss of 10.5cps in the prior year.

The announcement of the Group's results for the year ended 30 June 2020 has been delayed due to challenges faced on varying levels and extensions to lockdowns flowing from COVID-19 across the geographies in which it operates. Following guidance issued by the JSE Limited on reporting extensions, the Group sought to ensure that adequate consideration was given to the financial impact of COVID-19 on the assumptions, judgments and estimates used in the preparation of its financial statements. In addition, the Group entered into negotiations with its South African Lenders to restructure its debt package.

The Group will release its results for the year ended 30 June 2020 on 30 November 2020.

First Quarter 2021 operational and other financial highlights

COVID-19 continues to impact on the daily operations of the Group. Aveng has continued to adapt to this new environment and is pleased to report strong operational performance for Q1 FY21 (ending September 2020).

McConnell Dowell's revenue for the quarter was at a five-year high with over 80% of projects being executed at or above tender margins. This translated into solid operating earnings for the first quarter. Cash was positively impacted by advance payments from customers with all business units generating cash. The order book at 30 September 2020 is R19 billion (AUD 1,6 billion) with a further R21,4 billion (AUD1,9 billion) across 14 projects in preferred or sole Early Contractor Involvement (ECI) status (an increase in value of approximately 50% on FY20). These projects which have a very high probability of award are spread across all of McConnell Dowell's business units and include government, energy and resource sector clients. Should these contracts be awarded, this will provide a significant further boost to the order book.

Moolmans showed continued progress on the journey to re-establish the business as a leader in open-cut contract mining operating in Africa. The quarter was positively impacted by good operational performance on most of the contracts with one loss-making contract due to section 54 stoppages. The business enters FY21 with 81% of budgeted revenue secured and continues to actively pursue a number of opportunities for extensions to existing contracts and new work.

The Group's non-core operations of Trident Steel, Aveng Manufacturing and the run-off cost of completing the SA construction contracts continues to be actively managed, resulting in a better than expected first quarter.

Aveng remains committed to its strategy to dispose of the remaining non-core assets for value and to protect jobs wherever possible.

Liquidity

The Group continues to actively manage the liquidity and cash flow in two distinct liquidity pools, namely McConnell Dowell and the South African liquidity pool. McConnell Dowell's liquidity benefited from the deliberate action to settle legacy claims, the receipt of advance payments and a growing order book. As a result, McConnell Dowell will report a strong cash balance with sufficient cash and liquidity to support the growing order book and the growth opportunities that this market continues to present. The strict lockdown regulations announced in South Africa and related loss of revenue negatively impacted a liquidity position that was already under pressure. As noted, this was mitigated through short term facilities that have subsequently been repaid and a significant contribution by our people. The South African liquidity pool remains tightly managed and has demonstrated significant improvement over the first quarter.

Balance sheet restructure and recapitalisation

Aveng embarked upon a plan to sell non-core assets and reduce the unsustainable net debt in February 2018. In August 2019, Aveng renegotiated its debt with its South African lenders and extended the maturity dates of its debt package to June 2021 and September 2021. At the time, it was Aveng's intention to renegotiate its debt package in the last quarter of the 2020 financial year with a view to achieving a sustainable level of debt for the core businesses.

The onset of the COVID-19 pandemic resulted in delays to the non-core asset sales process and required the company to obtain additional liquidity for its South African operations, which was provided by the South African lenders as noted above. As such, it became apparent to the Board and the management team that a more holistic debt restructuring and recapitalisation of Aveng would be required in order to increase the likelihood of a sustainable outcome for all stakeholders in Aveng.
Aveng has since engaged with various stakeholders (including its South African lenders, the holders of notes issued through iNguza Investments (RF) Limited, its largest shareholder and others) and reached an in-principle agreement on a restructure that will result in:

- The introduction of a minimum of R300 million of new capital by way of a rights offer at 1.5 cents per share, fully underwritten by Aveng's largest shareholder;
- The restructuring of the South African lender debt into (i) restructured term and overdraft facilities of R1,102 million with a term of three years; and (ii) the settlement of the remaining debt by way of a cash settlement of 31 cents on the Rand or a specific issuance of new ordinary shares at 5 cents per share; and
- The settlement of the iNguza notes debt by way of an election of an early cash settlement at 31 cents in the Rand or the participation in the restructuring of the South African lender debt on the same basis as set out above.

Following a multi-year journey, this transaction will allow the Group to reset its capital structure, deleveraging the balance sheet by more than R1 billion, extending the Group's maturity profile to 3 years, and simultaneously materially improving the Group's South African liquidity pool. Following this transformational event, Aveng believes that the remaining debt is sustainable and the reinstated balance is forecast to be repaid over the next three years. Importantly, this transaction not only provides Aveng the capital structure flexibility to complete its non-core asset sale program and to wind down its remaining exposure to discontinued businesses, but also sets the Group on a path to pursue its strategy around the Group's core businesses, McConnell Dowell and Moolmans, which have returned to profitability and where Aveng sees further business improvement prospects and growth opportunities.

Further details of the restructuring and recapitalisation will be provided to all shareholders and iNguza noteholders in due course. The restructuring and recapitalisation will be subject to various conditions, including Aveng shareholder and iNguza noteholder approval.

Cautionary announcement

The balance sheet restructuring may have a material effect on the price of the Company's securities and security holders are therefore advised to exercise caution when dealing in Aveng's securities until a further announcement is made.

The financial information contained in this trading statement has not been reviewed nor reported on by Aveng's external auditors.

25 November 2020
Melrose Arch

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