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The construction of a future

Concrete Trends interviews Bhekani Mdlalose, Group Managing Director, Grinaker-LTA



Bhekani Mdlalose, managing director of Grinaker-LTA

Bhekani "Bheki" Mdlalose has over 20 years' experience in the construction industry and was appointed managing director of Grinaker-LTA in February 2015. He is a shareholder in Laula Consortium which acquired Grinaker-LTA from JSE-listed Aveng in the last quarter of 2019.

Concrete Trends caught up with Mdlalose recently, to see if that strategy had changed at all, since the CORONA-19 virus lockdown took an already ailing sector by surprise, and what navigating this landscape means for this South African construction giant.

CT What should the market know about the remaining obligations relevant to the acquisition itself, as well as Grinaker-LTA's vendor and debtor obligations?

BM In terms of our remaining obligations related to the purchase of the company, our vendor obligations and debtor obligations, these have not been affected. Unless we return to COVID-19 Level 5 restrictions for an extended period, there is no prospect of us needing to renegotiate payment terms for the company.

Nor have our future obligations been affected, and we are increasingly confident in the government's risk-adjusted approach to reopening the economy, especially now as the level 3 conditions have positively affected the whole construction sector.

CT The timing of this acquisition suggests the members of the Laula Consortium are confident in the medium-to-long-term future of this sector. What is your immediate strat-

egy in managing both the change of ownership and leadership, and the impacts of the lockdown?

BM Since we are not a listed business, we have the liberty of playing to our strengths: High quality, safety driven contract delivery. We are looking for steady growth by working with people who appreciate the quality of our work and respect and honour the contracts they enter. People who are going to pay us when payment becomes due. We are looking for true projects based on honest contracts. Competing for jobs based on margin alone has done great damage to our industry.

Our primary focus will be on improving our margins and diversifying our revenue base. The advantage of being an engineering and construction group with a strong mechanical and electrical side to the business, is that we can offset the general lumpiness of construction revenue streams by increasing our annuity income on maintenance and shutdown contracts. On the mechanical and electrical side of the business, we maintain a strong position in the oil and gas sector, being lead contractor in five of South Africa's six refineries. This already represents a significant portion of our revenue base, and we have our sights on increasing our Independent Power Production (IPP) contracts, especially as the need for sustainable off-take agreements has never been more compelling.

CT Tell us more about your expectations from IPPs?

BM Government decided to pursue more IPPs in the last quarter of last year. We've taken the decision to continue the IPP business which Grinaker-LTA started under Aveng and we will continue pursuing more IPPs as this makes sense on a number of levels.

The high foreign investor appetite for these IPPs is a strong sign of their viability and sustainability. Grinaker-LTA is in talks with a number of international parties to partner in the next round of IPPs. Certainly as a country, we urgently need to diversify our energy mix beyond ESKOM. Two things government needs to fix is the certainty on the price of offtake price. If they send mixed pricing messages, they could kill the concept. The next thing to fix is the empowerment element of our industry.

CT What do you see as the most broken elements of transformation in the sector?

BM The lack of uniformity and standardisation has been a disaster for the sector and we continue to see bad application of Black Economic Empowerment resulting in the tired narrative of BEE. The experience of many black business leaders, including that of our chairperson who has been a member of the president's BEE Advisory Council under both President Zuma and President Ramaphosa, is that BEE has to be more than about chasing the scorecard but instead be about the deliberate and well-structured programmes to

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grow black-owned and managed businesses whilst growing the economy. There needs to be single-mindedness about meaningful transformation where government commits to a single policy over a long period of time, until the intended objectives are achieved as against tinkering with both the intended objectives and policy.

CT You have been vocal about the closing window of opportunity to regain South Africa's global status as a construction heavyweight; what are the key priority areas to address to ensure this doesn't happen?

BM The biggest threat is the loss of skills in both the public and private sectors. The poor trading performance of the sector has decimated the industry, and on top of that much of the construction site disruptions we saw prior to the COVID-19 challenge have their roots in the failed government and sector transformation intervention, or the lack thereof.

Consider the matter of an effective emerging contractor development programme, which the sector needs desperately; government has in certain instances sought to use such a programme to support our country's struggle veterans suggesting that the form of support and care due to them ought to be given them by turning them into emerging contractors. The two are different and require two different deliberate initiatives. On the other hand many of the first-tier companies have not developed their own targeted emerging contractor development programme beyond the scorecard and public tender requirements.

Whilst Government has announced repeatedly that all public sector contracts require 30 per cent emerging contractor participation, they have yet to provide a single uniform policy, regulation or guideline around this. This view of the Construction Sector, coupled with a lack of certainty, is in no small part to blame for the emergence of the so-called Construction Mafia.

CT What impact has this had on the ground?

BM One of the most destabilising by-products of all these factors is the lamentable increase in contract disputes. The existing socio-economic realities on the ground coupled with profound missteps regarding empowerment sees the continued disruption of construction sites around the country, with sites held hostage by the so-called Construction Mafia. While the sector commends and appreciates the work done by SAFSEC in this area, we believe that there is more work to be done. On the public sector side, the sector needs to work with government in improving their construction contract management capacity to handle the complexities of the demands of local communities on the one hand and the legal implications of such disruptions on the other. Not giving attention to this has led to many contract disputes where government administrators and the sector defer to the courts as arbiters. Acceding to a force majeure is impossible as the escalation in costs exceed Treasury's contract cost adjustment restrictions.

The intense impact on engineers on both sides of the contract is very damaging and this only leads to an adversarial relationship. Ideally you want a sector that works well with government in ensuring that in the public sector you have technical expertise that is able to plan a contract, run a robust

procurement process and run an effective contract administration process, and Grinaker-LTA is seeking ways of working with government to assist in developing these skills.

CT What about the technical skills?

BM One of the key deliverables of my portfolio is to build on the technical skills that exist in the business to create the future cadre of skilled professionals that will take this business to the next 100 years. Any gathering of the industry should have skills as its permanent priority. Similarly, business will have to come to terms with building an emerging contractor approach that works. It is essentially Enterprise Development, but it cannot be for the sake of ticking off boxes. It must be for the good of the sector, the good of the communities and the good of our businesses. Whilst we can do all this, we must look at the fact they already have the Skills Development Fund, and government writes the policy, directs the resources and has some control over what we in the private sector do. Government must meet with the communities and direct this matter – and have certainty of policy to ensure it happens properly. This is outside BBEEE. This is simply development. ■



The Private Life of Bheki Mdlalose – life in lockdown

CT What do you do to cope in the time of lockdown?

BM The lockdown presented a mix bag of good and bad activities, enough time to think and revisit some of the decisions that were taken earlier in the year. The truth is business won't be the same after lockdown as quick rightsizing and adopting innovative ways on doing the business will need to be implemented fairly quickly. Travelling in between operations can be minimised by using video conferencing and thus improve decision making.

Lockdown presented a lot of time to read, revisit business strategy and look at ways to improve efficiencies within the way we do business. I participated in most of the community support in areas where we operate and also play a role in industry lobbying to have construction be allowed back into the economy earlier.