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Analyst slaps sliding WorleyParsons

PAUL GARVEY THE AUSTRALIAN NOVEMBER 22, 2013 12:00AM

EMBATTLED resources contractor WorleyParsons has been branded as "largely uninvestable" by Credit Suisse as the fallout from the group's shock profit downgrade continues.

WorleyParsons on Wednesday cut its earnings guidance by around 27 per cent, triggering a 26 per cent fall in the company's share price that wiped more than $1.4 billion off its market capitalisation.

Its shares fell another 1.75 per cent to $15.72 yesterday.

The latest downgrade, which WorleyParsons blamed largely on challenging conditions in its Australian and Canadian businesses, was the fourth from the company in the past two years and its second in 2013.

Credit Suisse analyst Mark Samter was particularly critical of WorleyParsons.

"In a business that is largely cost-plus work, and your major cost is people, this scale of surprise really shouldn't be happening. Certainly not so suddenly," Mr Samter said.

The analyst noted that conditions in WorleyParsons' key end markets, in particular oil and gas, remained strong on the whole.

England-based engineering group AMEC, for example, on Wednesday night said its order book had hit a record and reaffirmed it was on track to hit its full-year targets.

Mr Samter noted that WorleyParsons had confirmed its previous guidance only six weeks ago, and had presented at a major conference just three weeks ago. "It is hard to fathom how a 17-28 per cent downgrade . . . can have crept up on a business," he said. "The market has always struggled with visibility of the business. The concern must now be that it is equally as opaque for management."

He said WorleyParsons was "largely uninvestable" despite the possible attraction of its dividend yield after the share price plunge until the company could provide increased clarity around its earnings. Credit Suisse has a price target on WorleyParsons of $17.10 a share, down from $26.10 previously.

Deutsche Bank analyst Craig WongPan said he expected the contractor's earnings to grow at healthy rates in the coming years.

"While the guidance downgrade was disappointing and does raise questions on management's short-term earnings visibility, we are somewhat comforted that 90 per cent of the downgrade was from contracts not ramping up as planned," Mr WongPan said. Work from those contracts should be realised in the years ahead, he said.