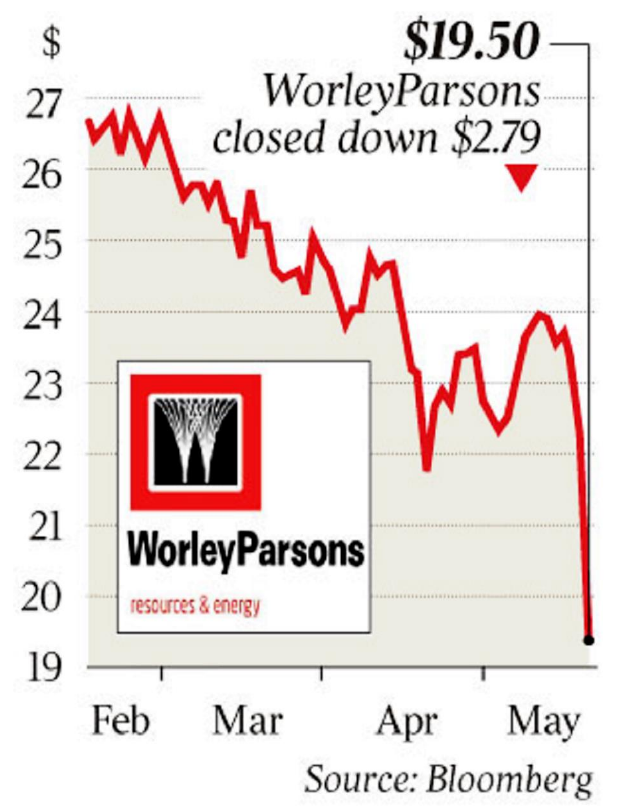
THE AUSTRALIAN

Worley falls prey to mining malaise

LISA MACNAMARA THE AUSTRALIAN MAY 18, 2013 12:00AM

THE plunge in resources capital expenditure has hit another contractor's earnings after a downgrade by engineering firm Worley Parsons capped off a horror week for the mining services contractors.



Source: The Australian

The downgrade signals more bad news for others in the sector and predictions of the uncertain sentiment extending to other companies.

Worley yesterday cut its net profit forecasts for the full year to a range of $320 million to $340m, down from initial forecasts of more than $345.6m.

It blamed weak demand for resources infrastructure, project deferrals and cost-cutting.

Investors quickly dumped the stock, which plunged 15 per cent before closing 12.5 per cent lower at $19.50.

Worley chief executive Andrew Wood said yesterday that he had been surprised by the speed of the project cancellations and deferrals.

He said conditions were far weaker than first anticipated at its first-half results just over eight weeks ago, forcing it to restructure and shed jobs in its West Australian operation.

Growth expected in its Canadian construction operation also did not eventuate, failing to provide some protection from the deteriorating climate.

"When we went through the April results, which have just come in now, WA we knew had deteriorated, but we hadn't got that offsetting that we expected from the rest of the business," Mr Wood said.

The news reconfirmed the negative effect of the project slump on the service sector, coming just days after downgrades by engineering firms Sedgman and UGL, and after BHP and Rio Tinto announced cuts to spending and project expansion.

They joined a slew of guidance reversals in the last six weeks by Calibre Group, Coffey International, Ausdrill and Eemco as analysts predicted more downgrades as companies slashed their estimates beyond the financial year.

Shaw Stockbroking analyst Danny Younis is expecting more bad news from the contracting sector with six weeks still to go until the end of the 2013 fiscal year.

"Boart Longyear has its AGM next week and the market is nervously anticipating another downgrade," Mr Younis said.

"What particularly concerns me is that 2014 financial year earnings for a lot of mining services companies in general are still in the growth phase, according to market consensus forecasts.

"Remember all these downgrades recently are current FY13 reductions. I will be cutting my FY14 forecasts, and in some cases drastically, and I would assume the market will do the same."

But CBA analyst Ben Brownette said the mining and metals downturn that began in the middle of last year was cascading from mining services companies and would flow on to those in construction.

"The next 12 to 24 months look particularly weak in a number of sub-segments of construction -- social infrastructure, buildings and roads," he said. "The company with the biggest exposure to these subsets is Lend Lease."

Compounding the poor sentiment was an unusually long wait until the federal election in September, extending the uncertainty at the same time as the resources sector was cutting back, fund manager Geoff Wilson said.

"If there wasn't an election, we could have had (resources) happening on one side and then on the other side lower interest rates stimulating economic activity, more consumption and we could have had retail sales growing at a nice rate," Mr Wilson said.

He said the recent cut in official interest rates to a record low of 2.75 per cent should have continued to drive sentiment forward after a positive start to the year.

"Normally the lower interest rates would mean a pick-up in activity and unfortunately during pre-election periods, economic activity tends to stagnate," Mr Wilson said. "All the anecdotal evidence we're seeing from companies is that when the election was called in February the consumer went on strike again, so expect (the market) to be fairly static until the election."