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Worley whacked as profits plummet

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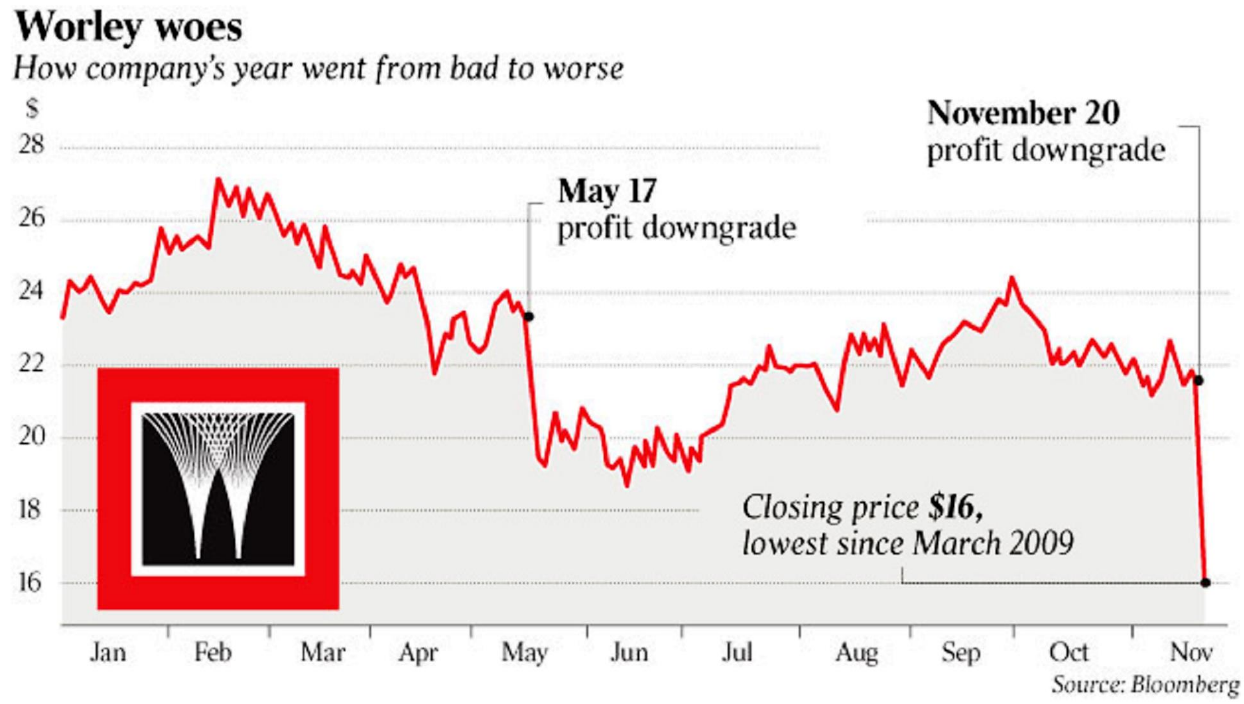

Source: TheAustralian

A SHOCK profit downgrade has wiped more than $1.4 billion off the market capitalisation of WorleyParsons in the strongest sign yet that the construction slowdown in the resources industry has spread into the oil and gas sector.

Less than four weeks after it confirmed it expected its 2014 profit to exceed its 2013 financial year return of $322 million, WorleyParsons said yesterday it now believed it would post a 2014 net profit of between $260m and $300m.

The news sent WorleyParsons shares into a nosedive, with the stock ultimately shedding $5.59 to close at $16.

WorleyParsons, which is heavily exposed to construction in the oil, gas and LNG industries, joined a long list of contractors to announce profit downgrades and warnings in recent weeks.

Groups including Ausdrill, Forge Group, Mermaid Marine, Sedgman, Monadelphous and Bradken have all revised -- or flagged revisions to -- their earnings forecasts amid ongoing challenging conditions, but the bulk of downgrades have afflicted contractors focused on the mining sector.

Seven Group last week announced it would axe another 630 jobs from its WesTrac mining equipment business, in addition to the 375 job cuts it had flagged earlier in the year.

WorleyParsons founder and chairman John Grill was the biggest loser as a result of yesterday's rout, with the value of his 10 per cent stake falling by more than $140m over the course of the day.

The drop took shares in WorleyParsons to their lowest level since March 2009.

Shares in the company are now down 41 per cent from their high in February.

The downgrade represented the fourth from the company in the past two years, and the second in six months.

WorleyParsons chief executive Andrew Wood said the earnings weakness had been picked up during end-of-month reviews of the company's business segments.

"This new outlook primarily reflects the fact we're seeing a reduction in professional services revenue for this year versus last year, and that is coming through from our larger operations, particularly the Australian and Canadian businesses, and to a smaller extent from Latin America and the Middle East," Mr Wood told reporters.

"In response we've implemented a rigorous cost-reduction program right across the group and we do expect the effects of that to be seen in the second half."

Mr Wood would not give any guidance for the number of jobs that would be lost, but noted that the group currently employed about 40,000 people around the world.

The latest guidance noted that the contractor's first-half net profit would be between $90m and $110m, suggesting that about 65 per cent of the full-year earnings would come from the second half of the year.

Analysts noted that historically an average of 54 per cent of WorleyParsons' earnings were skewed to the second half of the year, suggesting that delivering 65 per cent of earnings in the second half could be a challenge.

Moelis & Co analyst Simon Fitzgerald said WorleyParsons had long offered poor visibility over its earnings, given the need to keep confidential the value of many of its contracts.

He noted that while the earnings forecast was heavily skewed to the second half, the company had a good record of delivering in line with specific earnings forecasts. But he said he was surprised that WorleyParsons expected earnings from its metals and mining division to rise in the near term, given the ongoing challenging market conditions in the sector.

"It might surprise a few that that was embedded into the guidance. There's not too many other people around that were expecting the second half of 2014 to improve in terms of minerals and metals projects," he said. Shaw Stockbroking analyst Danny Younis said market confidence in WorleyParsons was likely to be "significantly eroded" given the size of the downgrade and the lack of detail about the reason for the earnings decline.

"One specific of note in the downgrade is that (the company) is expecting an 'upturn in our markets', which we believe could turn out to be misplaced optimism and puts the risk of the (2014) result firmly on the downside," Mr Younis said.

Mr Wood defended the company's expectations for the second half of the 2014 financial year, saying the imbalance was less severe if a number of one-off charges were excluded.

"There are a couple of things in the first half that we would treat as abnormal. So if you normalise that out, the second half doesn't look that extraordinary," he said.