THE AGE

EXCLUSIVE BUSINESS COMPANIES CONSTRUCTION

Construction giant CIMIC targeted over $800m profit boost

By Kylar Loussikian
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Australia's largest listed construction company CIMIC has inflated its profit and hidden poor performance to boost its share price by “engineering” its accounts, according to a scathing financial analysis by Hong Kong-based research house GMT.

The research, circulated this week, alleges the company, formerly known as Leighton Holdings, has boosted pre-tax profits by up to $800 million in the past two years by booking revenue in some cases “even before the customer has been billed or the amount agreed”.

CIMIC, run by Marcelino Fernandez Verdes, is controlled by Spanish conglomerate Grupo ACS. DOMINIC LORRIMER

CIMIC's shares closed down 1 per cent to $50.04 on Friday.

The note makes GMT Research – headed by former Nomura Securities banker Gillem Tulloch – the latest in a string of overseas outfits taking aim at locally-listed companies, most notably American hedge fund Glaucus’ attack on Blue Sky Alternative Investments last year.

The $16.2 billion construction giant is now majority-owned by Spanish giant Grupo ACS through its subsidiary Hochtief and last month confirmed profit guidance for this financial year of between $790 million and $840 million.

The GMT Research note said new Australian accounting rules, which came into force last year, resulted in a $700 million reversal in previously booked revenues by CIMIC.

"Such a large adjustment is itself an indication of CIMIC's aggressive revenue recognition, particularly as most of its peers have reported no or minimal impact," it reads.

"However, contract debtors have rapidly risen back to their previous level, although CIMIC refused to say how much is due to recognising revenue a second time."

GMT Research has also raised queries about CIMIC's $524 million acquisition of construction services and maintenance group UGL in 2016 and said it was suspicious of "the large reduction in UGL's net assets on acquisitions and the immediate jump in profits afterwards".

"Following the acquisition, there was an immediate jump in UGL's profits; it recorded (earnings before tax) of $166 million in 2017, its first year under CIMIC's ownership, compared with just $63 million excluding provisions in its final year as an independent company," the note, dated April 30, reads.

"By recognising additional liabilities and probably writing down assets, we think CIMIC primed UGL for a rapid increase in profits ... we estimate this has boosted CIMIC's pre-tax earnings by around $100 million in the last two years."

The note also suggests CIMIC had "hidden the poor underlying quality of its earnings though increased factoring of receivables and reverse factoring of payables".

It estimated the company's total operating cash flow of $3.1 billion in the last two years had been inflated by $1.4 billion, or over 80 per cent.

Negative analysis by overseas short-sellers has raised questions about the operations of a number of Australian companies, with asset manager Blue Sky Investment's share price diving from more than $10 before the Glaucus research to just 24 cents today.

> ***"We think CIMIC primed UGL for a rapid increase in profits."***
>
> GMT Research

A year earlier, the California-based short-seller published research about sandalwood group Quintis – which has since collapsed – claiming the company was worthless.

The brutality of the value destruction has sparked debate about the role of short-sellers, who bet on share prices falling.

But GMT Research, which works for private clients and writes about 30 reports every year, is not the first outfit to raise concerns about CIMIC's balance sheet.

Morgan Stanley analyst Nicholas Robison, as early as 2016, told the investment bank's clients that there was "an inexplicable disconnect between CIMIC's margins and those of the broader domestic peer group", raising similar questions as GMT's analysis.

CIMIC declined to comment yesterday.

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