

## EURO CONTRACTORS

# Is the UK market in their grip?

Even the big guns in this year's Top 200 European contractors league tables will feel the pain as public spending shrinks everywhere. But they could find good hunting among the UK's large projects. **Dave Lowery** examines what lies behind the rankings listed over the next nine pages. Illustration by **Noma Bar**

For Europe's biggest contractors, 2010 was the year they found out government coffers weren't bottomless. In 2008 and 2009 they were able to benefit from various stimulus packages across the Eurozone. But over the past 12 months the taps have been turned off and they're not likely to be turned back on any time soon. Think years.

Bailing out basket-case economies, such as Greece and Ireland, as well as shoring up teetering ones such as Spain and Portugal, has hit already stretched public sector finances as economic rescue packages take over from Keynesian-style stimulus.

What is this likely to mean for European contractors and the market in 2011 and beyond? Here, industry experts make their predictions, including the effect a Europe-wide contraction of public sector spending could have on the UK. Meanwhile the Top 200 European contractors and housebuilders league tables (see page 40) reveal the state of play among the biggest European firms as well as who's gone up and who's gone down over the past year.

### Who is suffering?

It's clear from the league tables that some firms have been hit much harder than others. The average drop in turnover of 2.7% across the top 200 firms, ranked by turnover, doesn't come close to conveying the damage some have suffered.

Spanish firm Acciona was the worst performing company in the top 200 with

turnover falling by more than 40% in the past year. Of the 10 worst performers, half were UK-based and three Spanish (for more information see the Top 10 Fallers, page 42).

And the worst isn't over – further contraction in public sector spending across Europe is likely. Contractors will be looking towards new markets where there is still growth or where they have a chance to win work on big, high-profile, projects.

The UK could well be one of those markets. Alasdair Reisner, head of industry affairs at the Civil Engineering Contractors Association, warns that competition for work is likely to heat up here: "Money will flow to wherever there are opportunities and there are some big-ticket projects in the UK. If your domestic market is weak, it's unsurprising that contractors look to alternative markets."

### Big players for big projects

Graham Parker, German contractor Hochtief's business development director in the UK, agrees big, high-value projects are likely to attract foreign firms: "While there have been spending cuts, there will still be significant spend in the UK and many of the projects that do go ahead will be big. Sectors such as tunnelling, offshore wind farms and waste-to-energy plants will be areas of growth."

Several of the largest European firms already have a sizeable presence here and this is set to grow. For example, Europe's biggest contractor, Vinci, has been operating in the UK for years and expanded in September 2008 with the acquisition of Taylor Woodrow Construction, among other UK-based firms.

Bouygues, in second place, also recently consolidated its position in the UK with the

£38.5m acquisition of a controlling stake in Leadbitter. Leadbitter Group's contribution will see the combined turnover of Bouygues' UK operations approach £800m. (See interview with Bouygues UK chairman Madani Sow, p32.)

And last month, fourth-ranked Spanish giant ACS Group was awarded a £700m contract to provide two 11.9 km long tunnels as part of the Crossrail project, along with its joint venture partner John Sisk.

John Morgan, Morgan Sindall's chairman, says: "Big projects, such as Crossrail, are very attractive to European companies and they have had a lot of success. There are still lots of large projects in the UK."

ACS' contract success highlights the fact that many European firms have greater experience in specialist areas and that this experience is highly regarded by clients.

Hochtief's Graham Parker shares this view: "Having the requisite skill set and reputation for working well in the sector in Europe can be very important. It's possible for Hochtief to

bring in teams of project managers and engineers from Germany to assist on larger projects. The firm operates global centres of excellence and these can be drawn upon to help with bidding opportunities in the UK."

### Impact on UK firms

UK contractors would be foolish to ignore this trend and there are concerns about big European firms bidding against them for work. In what is already a tough market, any increase in competition could push prices

BIG PROJECTS, SUCH AS CROSSRAIL, ARE VERY ATTRACTIVE TO EUROPEAN COMPANIES. THERE ARE STILL LOTS OF LARGE PROJECTS IN THE UK

JOHN MORGAN, MORGAN SINDALL

and margins down even further.

Medium-size firms could be hardest hit as they get locked out of bids early on by big, cash-rich European companies keen to establish a foothold in the UK at any price.

With clients' primary focus likely to be on costs, given their falling budgets, the UK construction sector could see a dramatic change over the next couple of years.

But Andy Brown of Panmure Gordon believes that it will be some time before there is an influx: "Some European companies are big enough and have the skill set to work on larger projects and they can compete directly with large firms, such as Balfour Beatty. But until they really target the UK market, it's not something that keeps me awake at night."

### Other strategies

Expansion is not solely focused on the UK, of course. In the latter part of the year, third-placed Hochtief was fiercely trying to fend off ACS Group, its largest shareholder, which has been increasing its stake in the firm.

ACS made its intentions clear in a statement to the Spanish stock exchange on 16 September. It read: "ACS intends to increase its shareholding [in Hochtief] to just above 50% over time allowing for full financial consolidation." (See box overleaf).

If it is successful, ACS will become the largest construction firm in the world. ☺





## TOP 10 RISERS

Rank	Company	Country	Most recent turnover (€m)	Change in turnover (%)
86	WILLMOTT DIXON	UK	1126	69.37
186	MOSTOSTAL WARSZAWA (ACCIONA)	Poland	419	55.67
107	KOESTER	Germany	800	53.85
133	GHELLA	Italy	652	35.23
140	ENTREPOSE CONTRACTING (VINCI CONSTRUCTION)	France	613	32.56
136	RAZEL (FAYAT)	France	644	31.33
146	ZAGOPE	Portugal	575	29.48
177	GFC CONSTRUCTION (BOUYGUES CONSTRUCTION)	France	442	27.08

© overtaking Vinci, and will control operations on nearly every continent – though the effect on the UK market may be negligible, according to Brown at Panmure Gordon. “It appears to be more of a financial transaction than operational,” he says. “Having effective control of both Hochtief and Australian contractor Leighton would improve ACS’ balance sheet, but there shouldn’t be any immediate change in the UK.”

## Winners and losers

A closer look at rankings in the top 200 contractors and housebuilders tables, based on each firm’s most recent results depending on their financial year end, reveals little change at the top since last year.

Paris-based Vinci is, once again, seated firmly at the top of the table after securing revenue of €32.5bn, down 4.3% on last year. It is comfortably ahead of its closest rival, Bouygues, whose €23.6bn turnover is 37% behind that of its local rival.

After losing out to its European rivals last year, Balfour Beatty, the UK’s biggest contractor, clawed its way back into the top 10, with turnover of €11.6bn. But several British firms were among the worst performers. Turnover at housebuilders Bellway and Barratt dropped by more than a third while Rok was 106th on the list, which uses figures released before its recent demise.

French and Spanish firms dominate the top 10 as usual, with four from France and three from Spain. But there was a wide variation in the performance of the French firms in the top 200. Vinci and Bouygues saw turnover fall, while Effiage and NGE saw increases of 0.1% and 8% respectively. On average French firms saw a decrease in turnover of 1.6%.

Given the continued weakness of the Spanish economy and concerns about the government’s borrowing levels, it is surprising to see its top firms performing so well. Smaller Spanish firms, however, languish outside the top 200. Turnover at several of these, including Grupo Bruesa and

Intersa, has plummeted by more than 40% compared with last year.

The top three Spanish firms got away with an average drop in turnover of 5%, while the other 20 Spanish companies in the top 200 suffered an average turnover fall of 16%. A further example of bigger companies taking more market share from their smaller rivals, this trend looks set to continue this year.

## TOP 10 FALLERS

Rank	Company	Country	Most recent turnover (€m)	Change (%)
17	ACCIONA	Spain	6512	-48.58
111	BELLWAY	UK	768	-40.51
141	NCC NORVEGE (NCC)	Norway	610	-35.72
38	BARRATT	UK	2,565	-35.71
160	VOLKER WESSELS UK (VOLKER WESSELS GROUP)	UK	513	-34.65
106	ROK	UK	802	-29.31
192	SRV VIITOSEY OY	Finland	385	-28.3
104	OBINESA	Spain	820	-26.13
112	SANDO	Spain	760	-25.49
101	MILLER GROUP	UK	879	-25.19

Rankings are made by Le Moniteur des Travaux Publics et du Bâtiment, with Building and Construire

## ACS’ BIG AMBITIONS

In September last year Spanish firm ACS surprised Hochtief when it said it would launch a bid to take strategic control of the group. In theory, owning one share over the 50% threshold will give it control over Hochtief and leading Australian contractor Leighton.

Hochtief had defended its independence fiercely but now accepts it will not remain independent. ACS said Hochtief will retain its listing on the Frankfurt stock exchange and current management will remain in place.

Apart from its 30% share in Hochtief, ACS also has strategic stakes in Iberdrola (16%) and Abertis (10.3%).

## Size will dominate

Bigger firms are likely to dominate over the coming years as they have the scale and expertise to take advantage of the larger contracts. Large balance sheets can gain access to finance and take risks that would scare off smaller firms. “Having the ability to provide financing solutions certainly helps and it’s generally the larger firms that can do this,” says Morgan Sindall’s Morgan. “The market is competitive and you have to be creative, offer good value for money and work towards what the client wants.”

Despite its problems, the UK construction sector is still attractive to foreign companies. Large-scale infrastructure investment is needed and private firms will be heavily involved in financing future development. The biggest companies should emerge stronger than their smaller rivals when the sector moves back into its growth phase.

Next year’s top 200 table is likely to show this in action, as big firms take advantage of their scale. There will be exceptions – some smaller companies will thrive in a market where they can be one step ahead of their larger, potentially more cumbersome rivals.

## NOW YOU CAN SEARCH OUR INTERACTIVE TABLES

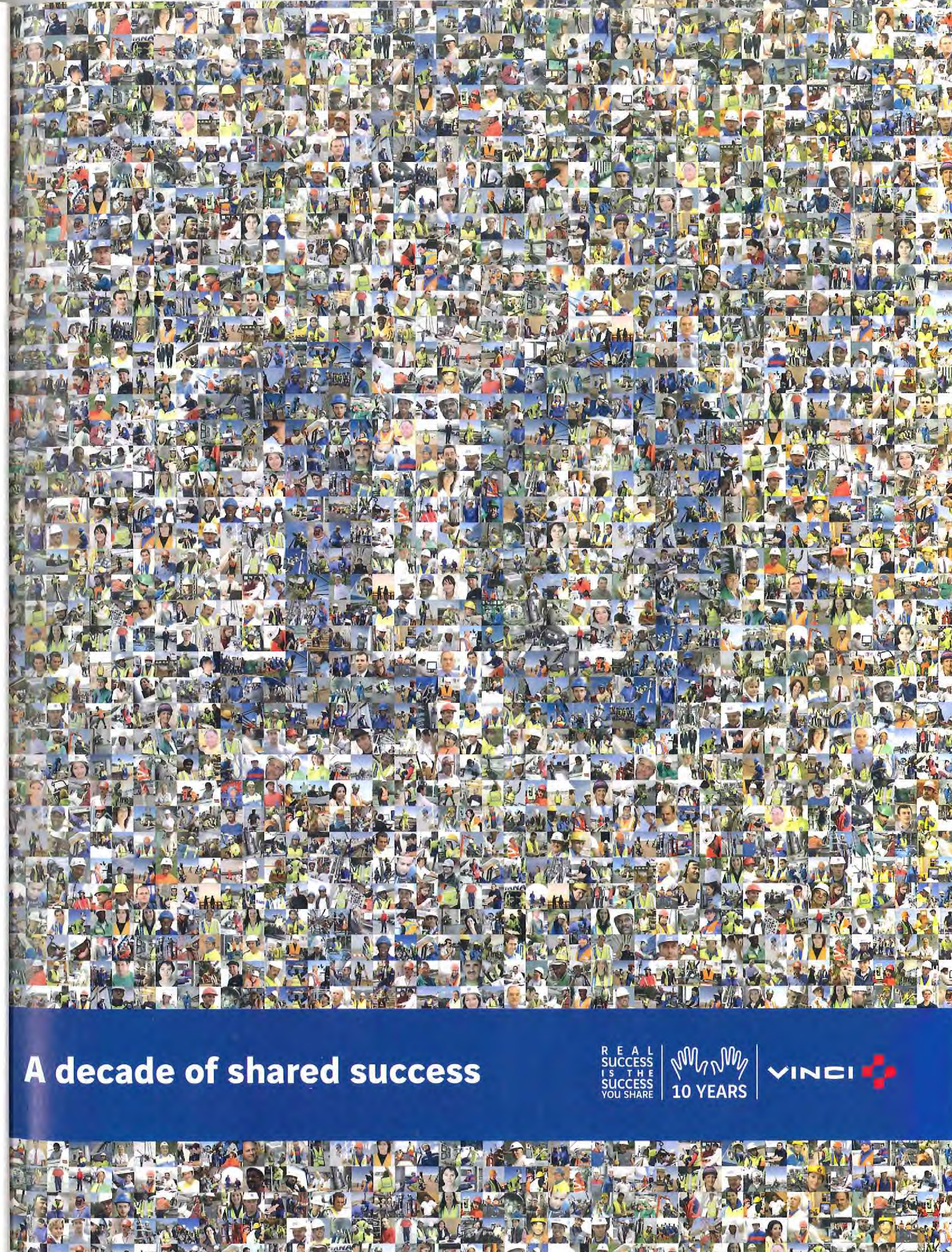


Building.co.uk has much more in-depth analysis of the top European contractors and manufacturers, this includes:

- Interactive tables in which you can rank every firm by growth, turnover and profit
- Infographics illustrating financial trends over time

- A breakdown of the results by country.

Visit the microsite at [www.building.co.uk/euro200](http://www.building.co.uk/euro200)



A decade of shared success

REAL  
SUCCESS  
IS THE  
SUCCESS  
YOU SHARE

10 YEARS

VINCI