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## Leightons facing internal troubles

Broadcast: 11/09/2011

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ALAN KOHLER, PRESENTER: To paraphrase Oscar Wilde, to lose one CEO can be regarded as a misfortune, but to lose two plus a chairman in rapid succession and billions of dollars in value looks like something far worse than carelessness for Leighton Holdings, Australia's one-time construction champion.

As Neal Woolrich reports, things could get much worse, with the company still mired in bitter internal warfare and facing an uprising from its once-faithful band of small shareholders.

NEAL WOOLRICH, REPORTER: Michael Francis has been investing in Australian shares for over 50 years, riding many ups and downs. But now for the first time he's joined a class action, stung by his investment in Leighton Holdings.

MICHAEL FRANCIS, LEIGHTON HOLDINGS SHAREHOLDER: I think they went missing on the continuous disclosures. And I think that a lot of people will be burnt. And I think we should stand up to people when they do things like that.

NEAL WOOLRICH: Michael Francis has lost more than a third of his investment since he bought into Leighton late last year, although it's only one stock out of his portfolio of 25.

MICHAEL FRANCIS: But the principle matters that if you're taking in billions of dollars of the public's money, all the old people's savings, and, you know, you can't go out there and say this demonstrates that and the wonderful shape something is in.

NEAL WOOLRICH: For longer term investors the pain has been even more acute. In 2007, Leightons' share price peaked at \$61, but tumbled to \$15 when the Global Financial Crisis hit. After a brief rally, the company's share price has been heading down since early 2010, this time largely due to self-inflicted wounds.

ROGER MONTGOMERY, MONTGOMERY INVESTMENT MGMT: So I don't think all the problems are over. And I suspect, and it's just my guess, but I suspect that we'll see analysts bringing down their forecasts for earnings expectations for Leighton's over the next eight or nine months.

NEAL WOOLRICH: Just this year, the company has seen a billion-dollar write-off in April on three major contracts, the hasty departure of its chairman and CEO a fortnight ago after the CEO had been in the job just eight months and ongoing tension with its major shareholder, Germany's Hochtief, which itself has just been taken over by Spain's Grupo ACS.

NEAL WOOLRICH: While all that has troubled investors, independent financial analyst Roger Montgomery says a more deep-seated issue is Leighton's capital management over the last decade.

ROGER MONTGOMERY: Unfortunately what this company's done is it's generated about \$9 billion of free cash - sorry, of cash flow from operations in the last 10 years, but then it's gone and spent \$8.5 billion on plant and equipment and acquisitions. That's left it with \$500 million of free cash flow, but then they've gone and spent \$2.4 billion on dividends.

NEAL WOOLRICH: The man at the helm for most of that time, former longstanding chief executive Wal King, continues to figure in speculation about the company.

It's believed that Wal King had a poor relationship with Leighton's major shareholder Hochtief, but is on much better terms with Hochtief's new owner ACS.

Now it's reported that ACS is keen to exert more control over Leighton, which could include bringing back Wal King as a consultant or even cutting the company's generous dividend policy.

ROGER MONTGOMERY: All of that suggests to me that the Australian shareholders whether small or large are really patsies in the room and the real game is being played out unbeknownst to the media here in Australia and to our shareholders. I think there's a lot more still to come.

NEAL WOOLRICH: Andrew Watson from Morris Blackburn lawyers is starting a class action against hold Leighton Holdings. He says the company should have revealed its losses on major projects like Victoria's desalination plant, the Brisbane AirportLink and the Al Habtoor Middle-East joint venture much earlier than it did.

ANDREW WATSON, PARTNER, MAURICE BLACKBURN LAWYERS: Now \$1.1 billion of writedowns just simply does not happen overnight, it doesn't happen in the space of two months. In fact we think that the writedown would have been evident to Leightons as far back as November 2010.

NEAL WOOLRICH: Part of Leighton's problems stem from its rather prominent place in the industrial relations landscape, especially the sometimes unruly field of construction.

KEN PHILLIPS, EXEC. DIR., INDEPENDENT CONTRACTORS OF AUST.: What you're seeing there is potentially as an outsider looking at a clash of cultures within the company itself in particular over how they handle industrial relations and how they interface and react with their workforce.

NEAL WOOLRICH: Ken Philips from the Independent Contractors Association says Leighton is the architect of its own woes, caving in to an overly generous industrial relations deal on Victoria's \$3 billion desalination plant.

KEN PHILLIPS: And that locked in a very low capacity of the Leightons group to manage the job. Because effectively it transferred management of a whole range of decisions over to the Europeans and the relationships with the unions.

TROY GRAY, ASST. BRANCH SECRETARY, ETU: All of a sudden the last four weeks we've got supposedly no productivity, we've got union issues, we've got union officials walking around the project. It is just fabricated and it's just manufactured to help Thiess. At the end of the day, have a legal argument in 18 months' time when class action comes.

NEAL WOOLRICH: And Troy Grey says there's little chance of Leighton meeting its deadline for the desalination plant, which is due to be finished next July.

TROY GRAY: I personally don't believe that Leightons have been honest with the share market and this job will overrun substantially past 1st July. So, I think there will be more writedowns on this project; it is inevitable.

NEAL WOOLRICH: Some feel Leighton will have to take more losses on its other troubled projects: Brisbane's AirportLink and the Al Habtoor joint venture in Dubai. But even if this is the last of the writedowns, Leighton's reputation in managing risk will take years to rebuild.

