

Five ways to improve the reliability of order book figures

Forward order book figures are one of the key indices used to generate investor confidence in construction companies. Our analysis of the order books of UK construction firms showed wide spread inconsistency in how the figures are assembled. We identified a significant discrepancy between a rise in order book value and static share prices.

In December 2011, the total order book figure rose 1.85% to £56.45 billion compared to year before. These figures suggest many construction firms are undervalued as increases in order book figures are not reflected in share price movements.

Standard best practise in assembling a firm's order book should be adopted by all companies in the sector as this will improve the reliability of the figures. Five ways to do this are:

1. When compiling the order book, companies need to separate out orders by organisational division and the geography of these orders to enable investors to clearly identify growth areas to aid investment decisions.
2. Construction companies should state the percentage of the order book that is secured compared to orders that are yet to be finalised, or that may come from a framework agreement. It should also be clear what period secured order book refers to by clearly identifying the period it covers so companies can be meaningfully compared. Setting out the annual order book against forecast revenue will also help in this.
3. To assist investors and stakeholders in deciding between making a long term investment or short term profits, construction companies should separate out short-term orders and long-term projects that are likely to take longer in delivering returns.
4. Trading statements to include order book details and all listed companies to report order book values to ensure a full and timely update from the quoted construction sector.
5. Should an acquisition be made, the order book must clearly state the effect the deal has on the order book figures. If it is not stated, a huge influx in orders will either worry investors in terms of capacity to complete the orders, or give the impression that orders will continue to grow at a similar pace.

Contact

If you would like to discuss your order book please don't hesitate to contact me or your usual Grant Thornton contact.

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