A KHL SPECIAL REPORT

THE RENTAL REPORT

A COMPREHENSIVE SUPPLIER LISTING AND GUIDE TO THE 2015 RENTAL MARKET FROM *INTERNATIONAL RENTAL NEWS*

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DISCLAIMER

Global slowdown

Global construction growth in 2015 was the weakest since the crisis years, as many key emerging economies slowed or fell into recession. In contrast to the last 15 years or so, it was developed markets which presented the best growth prospects. Chris sleight **reports.**

Estimates for the value of global construction output vary from about US$6.5 trillion (€5.9 trillion) to US$8.5 trillion (€7.7 trillion). The fact that it is such a large (and fragmented) industry makes it difficult to quantify.

In addition, there are different methodologies and different views about what should and should not be included. The general rule of thumb is that construction accounts for about 10% of GDP. That would put the industry size somewhere between those two estimates, at US$7.5 trillion (€6.8 trillion) in nominal terms.

Global construction growth in 2015 was fairly anaemic, at between 3% and 4%. This compared to 4% or better in the aftermath of the global economic crisis, and well above 5% in the preceding boom years.

The change was due to slowdowns and recessions in key emerging markets including Brazil, China and Russia. The impact from China in particular on the rest of the world was a key reason why other economies weakened, and with them their construction markets.

Over the last decade or so, China has become a huge manufacturing powerhouse, stimulating demand for all manner of commodities, from oil & gas to metals and cement. The sharp slowing of the Chinese economy over recent years has therefore had a big impact on the countries – many of them emerging markets themselves – which had been feeding China materials.

Having said that, construction output in China is still growing at perhaps 7% per year, making it one of the most vibrant markets in the world. The fact that it is the second biggest construction market in the world is also critical, and this is one of the key reasons the developing Asia region boasts the highest growth prospects of anywhere in the world.

But coming down from the 2000s, when construction output grew by double-digit percentages for a decade, and then the remarkable stimulus-driven boom of 2009 and 2010, and 7% growth feels pretty lacklustre.

There are still impressive projects underway in China. The expansion of the high-speed rail network is still on-going, many second-tier cities are getting extensive metro systems and the property markets continue to boom in the still-expanding major Eastern cities. However, things are not what they once were.

The slowdown in Chinese consumption of commodities is hitting other emerging construction markets in two ways. First, there is quite a lot of construction activity tied-up in commodity extraction itself. Mine development, building processing plants and establishing infrastructure to get hard-to-reach reserves out into the global market are all big construction projects in their own right. With demand for commodities weakening, these projects are being put on hold.

The second impact is an indirect one. With revenues from commodity sales falling, governments are finding it harder and harder to balance their books. As funds become scarce, public spending projects such as infrastructure and housing get put on hold.

So in broad terms, that is why the global construction market has slowed in 2015, and why the outlook for at least the first part of 2016 is poor, given that the Chinese economy looks like it still has some way to go before more robust growth returns. But as ever, there are different factors at play in different parts of the world.

Elsewhere in developing Asia for example, there is a new sense of optimism in India following the election of Prime Minister Narendra Modi by a landslide in 2014. He has talked a good game about infrastructure investment, including proposals for an extensive inter-city high-speed rail network. Such big talk has not yet materialised into big contracts, but the Indian construction market is still moving on at a reasonable pace.

There is also reasonable growth in other parts of developing Asia, but the slowdown in China is clearly having an impact on countries which have become used to feeding into this regional powerhouse. There is no lack of ambition – in Indonesia for example, the new government of president Jokowi Widodo has identified IDR 4,900 trillion (US$ 370 billion) of infrastructure investment needs for the next five years.

However, where the money will come from is an altogether different question. As in any country that is short of cash, the Indonesian government has pinned a lot of its hopes on Public Private Partnerships (PPPs), which can fill a gap, but are never a panacea.

The main developed country in the region, Japan, is also seeing a slowdown in construction activity. The reconstruction boom following 2011 tsunami and Fukushima nuclear disaster has all but tailed-off, as has the stimulus from prime minister Shinzo Abe's 'Abenomics' policy, launched at the end of 2012.

While Asia remains the world's largest regional construction market, and growth is higher than anywhere else, there is a slowdown which is likely to continue into 2016.

So much for the 'I' and 'C' of the BRICs economies, what about Brazil and Russia? Both face problems.

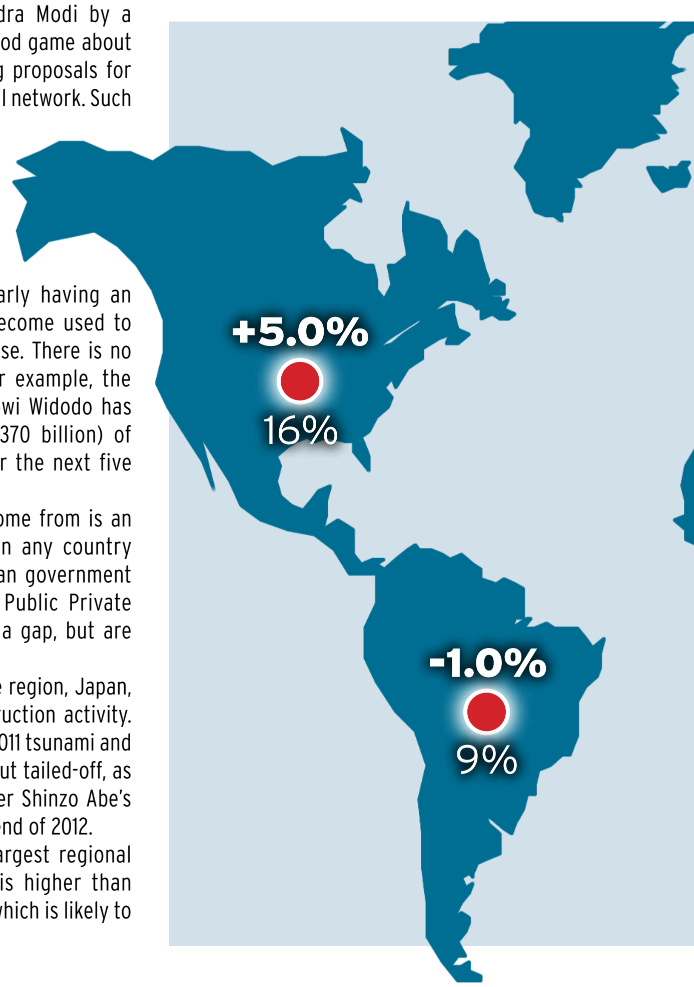
In Brazil, the on-going bribery scandal at state-controlled oil company Petrobras is ripping a hole in the construction sector. This year has seen two major contractors file for bankruptcy and executives including the CEOs of the country's four largest contractors – which are four out of the five largest contractors in Latin America – arrested on charges of bribery, money laundering and fraud.

Executives from OAS are appealing lengthy prison sentences following their convictions, while some board members Camargo Corrêa escaped with just house arrest following plea bargain arrangements.

The trials continue, but in the meantime, the award of new contracts in Brazil has slowed to a crawl. The fear is that once work linked to the 2016 Rio Olympics comes to an end, activity will plummet, possibly taking some of Latin America's largest contractors with it.

Although Brazil is the major economy in the region and accounts for perhaps half of Latin American construction activity, it is not the only story in the region. Despite the slowdown in demand for commodities, which is impacting on Latin America, there are still interesting projects in the region, including numerous metro schemes and tantalising proposals for high-speed rail.

The Central American part of Latin America is also interesting. It is home to the world's largest construction project, the expansion of the Panama



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IRN100 Notes & thanks

IRN again thanks those companies and individuals who contributed information to the survey. If you have comments, or would like to be included next year, please contact the editor. Tel: +44 (0)1892 786209
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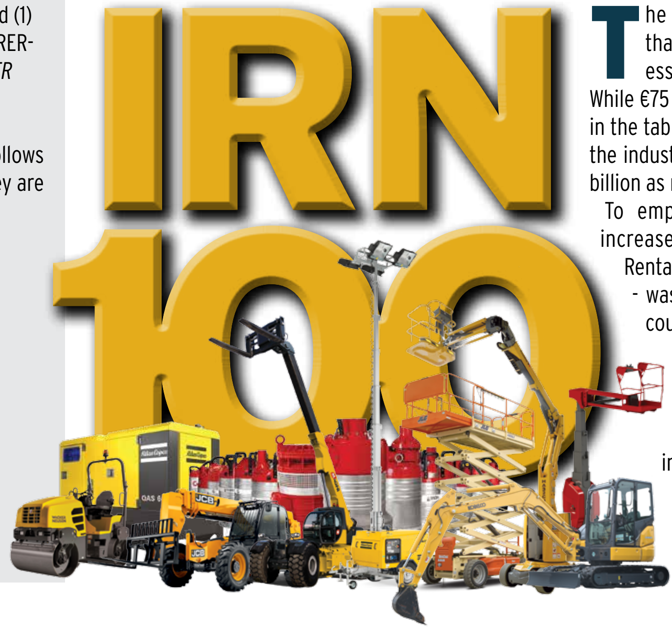
- Rankings are based on rental revenues for 2014 (or the most recent financial year) and include sales of used fleet and consumables/contractor supplies. Where known, sales of new equipment have been excluded from the survey.
- Figures denoted (Est) have been estimated by *IRN*. As in previous years, figures denoted (1) are taken, with thanks, from the annual RER-100 survey published by US-magazine *RER (Rental Equipment Register)* in May 2015.
- All revenues have been converted into € using exchange rates as at 31/12/14, as follows (exchange rates used in last year's survey are given in brackets):

€1.00 = US$ 1.211 (1.318)
=UK£ 0.777 (0.837)
=AU$ 1.483 (1.548)
=CA$ 1.405 (1.47)
=JPY 144.5 (144.9)
=ZAR 13.99 (14.28)
=SEK 9.42 (8.85)
=S$ 1.60 (1.75)
=NOK 9.02 (8.38)
=BRL 3.22 (3.26)
=CNY 7.51 (8.36)
=NZ$ 1.55 (1.68)

Gap widens as

Remember President George W Bush's soundbite about the 'haves and the have mores'? This year's IRN100 finds the revenue differential between companies at opposite ends of the list has increased substantially.



The latest IRN100 survey involves more than 1000 individual pieces of data, but it can essentially be summed up in two statistics. While €75 million of revenue is enough to get a place in the table, as it was in 2014, the equivalent total for the industry's leading company is now as near to €4 billion as makes no difference.

To emphasise the position even further, the increase in revenue that market leader United Rentals enjoyed in the 12 months - €650 million - was nine times the total rental income of its counterpart 99 places down the list. Nor was United Rentals' performance an isolated instance. You have to read down the list as far as Loxam in ninth position before you find a company whose revenue increased by less than €100 million.

One thing that should be borne in mind is that like all US companies in the list, United Rentals benefits from the fact that the IRN100 is measured in euros.

RANK 15	RANK 14	COMPANY	TURNOVER (€ MILLION) 14/15	TURNOVER (€ MILLION) 13/14	HEAD OFFICE	AREAS OF OPERATION	TYPE OF RENTAL COMPANY	NUMBER OF DEPOTS	STAFF	CONTACT DETAILS
1	1	**United Rentals**	**3980**	3331	Stamford, Connecticut, US	US, Canada	Construction equipment, tools	888	12500	Tel +1 203 622 3131 www.unitedrentals.com
2	3	**Ashtead Group**	**2055**	1704	London, UK	UK, US	Construction equipment, tools	526	10000	Tel +44 20 7726 9700 www.ashtead-group.com
3	2	**Aggreko**	**2030**	1890	Glasgow, UK	100 countries	Power, temperature control and compressor rental	202	6000	Tel +44 141 225 5900 www.aggreko.com
4	4	**Algeco Scotsman**	**1448**	1302	Baltimore, Maryland, US	29 countries worldwide	Portable accommodation/ storage units	253	5000	Tel +1 410 931 600 www.algecoscotsman.com
5	6	**Aktio Corp**	**1360**	929	Tokyo, Japan	Japan, Thailand, Singapore, Malaysia, Taiwan, Indonesia, Bangladesh	Construction equipment, tool hire	644	5039	Tel +81 3 6854 1413 www.aktio.co.jp

TABLE 1

IRN100 Revenues

	2014 (currency adjusted)	2014 Revenues (€ billion)	2014 % change (adjusted)	2013 Revenues (€ billion)	2012 Revenues (€ billion)	2011 Revenues (€ billion)	2010 Revenues (€ billion)	2009 Revenues (€ billion)	2008 Revenues (€ billion)	2007 Revenues (€ billion)	2006 Revenues (€ billion)
Top 5	€ 10.21bn	€ 10.87bn	10.62%	€ 9.23bn	€ 8.38bn	€ 6.96bn	€ 5.30bn	€ 5.04bn	€ 6.30bn	€ 7.20bn	€ 7,2bn
Top 10	€ 14.73bn	€ 15.51bn	13.22%	€ 13.01bn	€ 12.35bn	€ 11.44bn	€ 8.90bn	€ 8.07bn	€ 10.00bn	€ 10.80bn	€ 9,8bn
Top 50	€ 27.59bn	€ 29.30bn	7.98%	€ 25.55bn	€ 25.43bn	€ 24.23bn	€ 20.20bn	€ 18.73bn	€ 22.00bn	€ 22.10bn	€ 20,0bn
Top 100	€ 31.12bn	€ 35.42bn	-0.18%	€ 31.70bn	€ 31.40bn	€ 29.43bn	€ 24.90bn	€ 23.20bn	€ 27.10bn	€ 26.90bn	€ 24,7bn
Total World Market		€ 70bn		€ 70bn (Est)		€ 60.00bn	€ 55.00bn	€ 55.00bn	€ 60-65bn	€ 62bn	€ 50bn