NEDBANK PRIVATE WEALTH
SINCE 1834

3 September 2018

Heads up: ARB Holdings FY18 results...A dividend underpin

Share code:	**ARH**
Share price:	**623cps**
Market cap:	**R1.5bn**
Year end:	**June**
Recommendation:	**Buy**

- **Overview:** ARB's full year results were negatively impacted by a challenging economic environment. The reported HEPS showed an increase of 15.9% to 71.7 cps. This increase was underpinned by the positive effects of the put option liability relating to the Eurolux minorities. Excluding the effects of the put option, we estimate that normalised EPS declined by 4.6%. The dividend declared for the full year was flat at 25 cps. In addition, the business declared another special dividend of 10 cps. In light of the ability to generate positive cash flows, we expect to see further special dividends in the absence of meaningful and value accretive M&A activity.
- **Financial highlights:** Revenue increased by 4.5% to R2.5bn. Underlying operating profit contracted by 5.7% and the operating margin deteriorated to 7.9% (FY17: 8.7%). The effective tax rate was 24.8% (FY17: 27.4%).

  Growth in this period was affected by a poor performance in the Lighting business (22% of EBIT). This business realised a decline of 20.6% in profit, with the operating margin contracting to 9.1% (FY17: 11.3%). The operating profit for the Electrical business (62% of EBIT) declined by 3.8% and operating margin also declined to 6.1% (FY17: 6.7%). Amongst the key performance drivers across these major units was a lack of growth and government/Eskom spending on infrastructure/electrical projects, increased competition and cable supply challenges as well as write down of certain lighting stock. Corporate Services' contribution to group operating profit was positive at 16% and grew by 13.4%.
- **Financial position and cash flows:** ARB has an ungeared balance sheet and this provides headroom for future acquisitive activity. Working capital management was positive and supported growth in cash generated from operations during the period.
- **In our view,** ARB is strategically well placed to leverage market opportunities. Although the current economic environment presents a high degree of uncertainty, we view management initiatives to drive growth through store/brand expansion coupled with acquisitive activities as a positive. Growing the brand portfolio to gain market share in existing and new markets remains one of the key priorities for the group. ARB is in the process of acquiring a new business, Radiant Lighting. Once this acquisition is complete and the business is integrated within the group, we are positive that it should strengthen ARB's competitive position and enhance its route to market.
- **Valuation and recommendation:** Although we are cognisant of the liquidity constraints relating to this counter, at current levels, ARB appears to be undervalued and provides a good margin of safety. Furthermore, this counter presents a great opportunity for investors with an appetite for risk and looking for a reasonable yield. Based on our current forecasts, ARB is trading on a 12-month forward PE of 9.2x and dividend yield of 5.8%. BUY.

Nedbank Private Wealth Investment Research and Fund Management

The analyst does not have a beneficial interest in the company	■
The analyst holds a direct beneficial interest in the company	
The analyst holds an indirect beneficial interest in the company	