ARB Holdings weathers tough trading conditions

- **Revenue up 3% to R1.3 billion**
- **Profit before tax increased to R111 millon**
- **HEPS up 1% to 28.07 cents**
- **Gross profit margin at 22.8%**
- **Ungeared, with net cash on hand at R175 million**

Thursday, 16 February 2017 – Investment and property holding company ARB, with investments primarily in electrical wholesaling and lighting distribution, today released its interim results for the six months to 31 December 2016, reporting muted growth in revenue of 3%.

Trading conditions in the period under review were extremely challenging and the operating profit remains unchanged from the comparable period at R104.5 million.

The Electrical Division's revenue was adversely affected by the delay in the implementation of municipal projects and the tough conditions in the general trading environment, given the continued low economic growth.

Group revenue increased by 3% to R1,3 billion (2015: R1,2 billion). Headline earnings per share increased by 1% to 28.07 cents.

"The Group delivered pleasing results despite the lack of any real economic growth and infrastructure spend," says Group CEO Billy Neasham. "The Electrical Division's revenue improved marginally, whilst the Lighting Division improved its revenue by 5.7% with margins under pressure from the volatile exchange rate."

Changes in the product mix, and the emphasis on ensuring that trading disciplines are maintained, resulted in the gross profit margin increasing marginally to 22.8% (2015: 22.4%) while the operating margin stands at 8.2% (2015: 8.5%) of revenue.

The Group continues to be cash generative; is ungeared and has net cash on hand of R174.8 million (2015: R190.9 million), after the payment of dividends during the reporting period of R93.4 million. Tight cash management resulted in an increase of 30% in net interest received to R6.6 million (2015: R5.1 million).

Net working capital as a percentage of annualised revenue increased to 24.3% (2015: 20.9%) and remains in line within the targeted range of 20% to 25% of revenue. Receivables and payables have decreased over the comparative period, as the previous period included the effect of a large project which had extended payment terms to customers with back-to-back terms from suppliers.

"Gross capital expenditure for the period was R13.6 million, which relates to the replacement of vehicles; the costs involved in the roll-out of the additional three Connect Stores in the Electrical Division, and computer equipment in the Lighting Division," says Neasham.

In line with company policy, no interim dividend was declared.

Operational review

Electrical Division

The increase of 1,9% in the Electrical Division's revenue was generated by sourcing and securing opportunities from smaller project orders, while continuing to expand its geographic footprint with three new Connect stores to compensate for the decrease in project revenues. With the limited project opportunities, the gross margin remained under pressure, predominantly in the high value cable-related products. Operating profit decreased by 2.1% to R62.8 million (2015: R64.1 million), an operating margin of 6.2% (2015: 6.4%).

Lighting Division

The Lighting Division increased revenue by 5.7% to R270.6 million (2015: R255.9 million) and operating profit by 8.9% to R32.5 million (2015: R29.8 million). This is mainly due to strict management of overheads to counter margin pressure due to the volatile exchange rate. The operating margin improved to 12.0% (2015: 11.6%). The new Euro Nouveau lighting showroom, which was opened in the period, with a new range targeting the more discerning buyer, received positive responses from the market.

Outlook

The Group foresees little or no change in the general trading environment, given the low economic growth forecast for South Africa. However, Neasham is confident that the Group's initiatives will ensure reasonable growth in the medium to long term.

"The Group has the resources to continue to build customer loyalty, which will create new opportunities for the Electrical Division, to invest, in the medium term, in organic growth opportunities. The Lighting Division's joint venture with Crabtree, to distribute their products to our retail customers, together with the continued expansion of this division's product range, provides an opportunity for future growth," he concludes.

Ends

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