



ARB
ARB
Holdings Limited

**Unaudited
interim results**
for the six months ended
31 December 2018



www.arbhold.co.za

ARB Holdings Limited ["ARB" or "the Company" or "the Group"]
Registration number: 1986/002975/06 | Share code: ARH | ISIN: ZAE000109435

Unaudited interim results

SALIENT POINTS

Revenue **up 1%**
to R1 357m

Operating profit
down 15% to R92m

Headline earnings
per share (“HEPS”)
down 38% to
23,17 cents

HEPS, excluding
the put option
valuation, is
down 12.8%

Ung geared, with R148m net cash on hand

COMMENTARY

The Board of Directors of ARB (“the Board”) presents the Group’s interim results for the six months ended 31 December 2018 (“the period”).

NATURE OF BUSINESS

ARB is an investment and property holding company with investments in closely-related trading and distribution businesses, including 74% of ARB Electrical Wholesalers (Pty) Ltd, a level 2 B-BBEE company, which operates 22 electrical wholesale branches throughout South Africa, and 60% of Eurolux (Pty) Ltd, which imports and distributes light fittings, lamps and related accessories.

FINANCIAL REVIEW

Shareholders have previously been advised that the valuation of the put option liability in favour of minority shareholders in Eurolux, is volatile and may increase or decrease in the short term. The Group’s results for the six months to December 2018 have been negatively affected by the IFRS fair value adjustment of the put option liability. This constituted an increase of R10,6m (2017: decrease of R13,8m) in the liability, resulting in a net year-on-year change of R24,4m. Without these valuation adjustments, the HEPS were down by 12.76%, in line with the operating profit which is down 15% year-on-year. This fair value adjustment of the put option liability is sensitive to movements in the Company’s share price.

The Group’s revenue for the period increased by 1.1% to R1,36bn (2017: R1,34bn). The Electrical Division turnover is marginally down, despite the inclusion of the CraigCor acquisition in February 2018 and the expansion of its Connect branches, while the Lighting Division’s turnover increased due to increase in market share from improved “fill rates” at retail stores and turnover from the Crabtree distribution JV now being included in revenue.

The Group’s operating profit decreased to R91,6m (2017: R107,4m) at an operating margin of 6.8% of revenue (2017: 8.0%). The gross margin remained unchanged, while the expenditure grew due to inflationary increases, the inclusion of CraigCor and the new branches added.

The Group continues to be cash generative, remains ungeared and has net cash on hand of R147,8m (2017: R226,5m), after the payment of dividends during the reporting period of R109,3m (2017: R118,7m). Net interest received decreased by 9% to R12,6m (2017: R13,7m), mainly as a result of an IFRS adjustment of R1,6m, being the effect of net present value adjustments to the CraigCor put option. Interest income remains high despite “special dividends” of R23,5m and significant capex of R65,2m which related mainly to the Lords View Distribution Centre in Gauteng, being built as an investment for the future and represents a step change in the business’s infrastructure capability.

With the continued emphasis on working capital management, net working capital as a percentage of annualised revenue increased marginally to 21.9% (2017: 21.6%). This level is pleasing and is at the lower end of the targeted range of 20% to 25% of revenue.

The Eurolux minority put option is reflected as a current liability of R75,1m (2017: R77,1m). These non-controlling shareholders may now put their shares to the Group but have not indicated any intention to do so. The CraigCor put option is only able to be exercised in March 2022, and is reflected as a non-current liability. These liabilities are calculated in terms of a formula as set out under basis of preparation below and in note 20 to the annual financial statements, which is available on the Group's website.

DIVISIONAL REVIEWS

Electrical Division (Revenue down 1.8% and operating profit down 26.9%)

The Electrical Division's revenue decreased despite the increase in revenue from CraigCor and the new branches. This is primarily as a result of a lack of infrastructure and development projects of any size; the entry as a direct competitor into the market of a major cable supplier, Aberdare, and the continued reduction in Eskom spend on electrification projects. This has been partially mitigated by leveraging off good customer relationship to retain business in the declining market. The acquisition of CraigCor on 1 February 2018 has helped to expand the product offering to customers in Ekurheleni, Gauteng, Tshwane and the Western Cape. The new stores in Port Elizabeth and Randburg have increased the geographic footprint of the electrical wholesale division. With limited trading opportunities and the gross margin under pressure (predominantly in the high value power cable-related products), operating profit decreased by 26.9% to R51,9m (2017: R70,9m), at a margin of 4.8% (2017: 6.4%).

Lighting Division (Revenue increased 13.4% and operating profit by 1.1%)

Consumer confidence in this period reduced further and "hardware" revenue in the retail sector has decreased by 2.5% (2017: flat) in the last six months. The revenue increased due to the inclusion of the Crabtree retail sales, but more importantly to a revised strategy to grow market share with the major retail customers via an increase in inventory to ensure we meet customer requirements in an environment where everyone is reducing inventory levels. This has resulted in a number of customers moving their orders to the Eurolux brand. As a result, revenue increased by 13.4% to R288,4m (2017: R254,2m). The volatile exchange rate and increased competition for business, continues to put pressure on margins. The operating profit increased marginally by 1.1% to R27,2m (2017: R26,9m), but operating margin deteriorated to 9.4% (2017: 10.6%).

PROSPECTS

The Group foresees little or no improvement in the general trading environment, given the low economic growth forecast for South Africa. We remain confident that the Group is well positioned and has the resources to continue to build customer loyalty; to secure a fair share of the limited project opportunities available and remain capable to take advantage of any improvement in trading conditions when the South African economy improves.

With effect from 1 January 2019, the Lighting Group acquired 100% of the shares of The Radiant Group (Pty) Ltd for a purchase consideration of R96,4m, and is in the final stages of acquiring the properties out of which this business operates for R88,0m. The Radiant brand is well known and well specified. Between Eurolux and Radiant, the Group has more Letters of Authority (the government electrical product approval certificates) than any other company and is in the best position to provide product to the wholesale and retail industries. The logistic and back office functions of both businesses will be rationalised and integrated but the Group intends to develop and retain the independence of the Radiant brand and reclaim its market share in the retail, wholesale and contractor market.

The Lighting Division will continue to expand its product offering to existing customers. The new cut wire, moulded plug and ready pack ranges will be increased with the acquisition of the Radiant and these operations will be rationalised and consolidated at Radiant. It is anticipated that this facility will contribute positively to the next six months' results.

The Electrical Division completed the development of the new mega branch in Lords View in December and is currently operational. The current strategy is to redevelop the operation from a large branch into an automated distribution centre with a modern warehouse management system. This division will continue to invest, in the medium term, through targeted acquisitions and in organic growth opportunities through the establishment of new branches. Trading margins are expected to remain under pressure and costs and working capital continue to be closely managed. The division also has opportunities to supply product from its overhead line department to Eskom projects should any of these become available in the lead up to the general elections.

Whilst no other corporate activity has taken place during the period, the Group continues to evaluate acquisition opportunities.

These interim statements, including these prospects have neither been reviewed nor reported on by the Company's auditors.

CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME

	% change	Six months to 31 December 2018 (R000's)	Six months to 31 December 2017 (R000's)	Audited year to 30 June 2018 (R000's)
Revenue	1	1 356 730	1 342 403	2 590 150
Cost of sales	1	1 037 946	1 029 866	1 974 964
Gross profit	2	318 784	312 537	615 186
Other income	(89)	474	4 157	5 987
Selling, administration and distribution expenses	9	(227 650)	(209 264)	(416 847)
Operating profit	(15)	91 608	107 430	204 326
Change in put option assumptions		(10 618)	13 828	26 000
Profit before interest and taxation	(33.2)	80 990	121 258	230 326
Net interest received	(9)	12 555	13 752	24 541
Profit before taxation	(31)	93 545	135 010	254 867
Taxation	(13)	29 850	34 207	63 220
Profit for the period	(36.8)	63 695	100 802	191 647
Items that will not be recycled into profit or loss				
– Revaluation of property, plant and equipment (net of taxation)		–	–	2 429
Total comprehensive income for the period	(37)	63 695	100 802	194 076
Profit for the period attributable to:		63 695	100 802	191 647
– Non-controlling interests (“NCI”)	(26)	9 048	12 213	23 151
– Ordinary shareholders	(38)	54 647	88 590	168 496
Total comprehensive income attributable to:		63 695	100 802	194 076
– Non-controlling interests (“NCI”)	(26)	9 048	12 213	23 151
– Ordinary shareholders	(38)	54 647	88 590	170 925

RECONCILIATION BETWEEN EARNINGS AND HEADLINE EARNINGS

	%	Six months to 31 December 2018 (R000's)	Six months to 31 December 2017 (R000's)	Audited year to 30 June 2018 (R000's)
	change			
Reconciliation between earnings and headline earnings				
Profit for the period attributable to ordinary shareholders		54 647	88 590	168 496
(Profit)/loss on disposal of property, plant and equipment (net of taxation and NCI)		(193)	(175)	3
Headline earnings		54 454	88 415	168 499
Number of ordinary shares in issue (000's)		235 000	235 000	235 000
Weighted average number of ordinary shares in issue (000's)		235 000	235 000	235 000
Basic earnings per share (cents)*	(38.3)	23,25	37,70	71,70
Headline earnings per share (cents)*	(38.4)	23,17	37,62	71,70

* There are no dilutive instruments in issue.

CONDENSED GROUP STATEMENT OF FINANCIAL POSITION

	% change	Six months to 31 December 2018 (R000's)	Six months to 31 December 2017 (R000's)	Audited year to 30 June 2018 (R000's)
ASSETS				
Property, plant and equipment	34	387 900	289 590	331 323
Intangible assets	23	95 558	77 769	95 638
Investment in joint venture		3 698	4 179	–
Deferred taxation		7 032	3 886	8 218
Total non-current assets		494 188	375 424	435 179
Current assets		991 782	1 080 681	1 161 501
Inventory	15	529 619	461 436	508 174
Trade and other receivables	(20)	314 388	392 683	393 907
Cash resources	(35)	147 775	226 562	259 420
Total assets		1 485 970	1 456 105	1 596 680
EQUITY AND LIABILITIES				
Share capital and premium		116 174	116 174	116 174
Revaluation reserve		72 909	70 480	72 909
Accumulated profits		750 790	718 626	778 393
Attributable to ordinary shareholders		939 873	905 280	967 476
Non-controlling interests		132 551	146 681	150 543
Total shareholders' funds		1 072 424	1 051 961	1 118 019
Non-current liabilities		78 155	41 812	76 028
Put option liability		35 061	–	33 475
Deferred lease payments		858	1 093	631
Deferred taxation	4	42 236	40 719	41 922
Current liabilities	(7)	335 391	362 332	402 633
Trade and other payables	(9)	256 865	282 922	332 011
Put option liability	(3)	75 128	77 179	65 007
Taxation payable	52	3 398	2 231	5 615
Total equity and liabilities		1 485 970	1 456 105	1 596 680

	Six months to 31 December 2018 (R000's)	Six months to 31 December 2017 (R000's)	Audited year to 30 June 2018 (R000's)
Net asset value per share (cents)	399,95	385,23	411,69
Net tangible asset value per share (cents)	363,26	357,45	374,47
Property, plant and equipment			
Capital expenditure for the period	65 222	61 935	106 299
Capital commitment – Radiant shares	96 400	–	–
Capital commitment – Radiant Properties	88 000	–	–
Capital commitments – contracted for	18 461	2 367	44 526
Capital commitments – not contracted for	2 000	78 942	27 106
Depreciation and amortisation	7 286	7 085	13 695

CONDENSED GROUP STATEMENT OF CASH FLOWS

	Six months to 31 December 2018 (R000's)	Six months to 31 December 2017 (R000's)	Audited year to 30 June 2018 (R000's)
Cash generated by trading activities	97 518	113 206	217 054
Increase in net working capital	(19 819)	7 033	8 285
Cash generated by operating activities	77 699	120 239	225 359
Net interest received	14 141	13 752	26 099
Dividends paid	(109 290)	(118 650)	(118 650)
Taxation paid	(30 570)	(36 126)	(65 039)
Cash flows from operating activities	(48 020)	(20 785)	67 749
Cash flows from investing activities	(63 625)	(59 295)	(114 971)
Cash flows from financing activities	-	-	-
Decrease in cash resources	(111 645)	(80 080)	(47 222)
Cash resources at beginning of the year	259 420	306 642	306 642
Cash resources at end of the year	147 775	226 562	259 420

CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY

	Share capital and premium	Revaluation reserve (R000's)	Accumulated profit (R000's)	Non-controlling interests (R000's)	Total (R000's)
Balance at 30 June 2017 (audited)	116 174	70 480	712 286	170 868	1 069 808
Total comprehensive income	-	-	88 590	12 213	100 803
Dividends paid	-	-	(82 250)	(36 400)	(118 650)
Balance at 31 December 2017 (unaudited)	116 174	70 480	718 626	146 681	1 051 961
Total comprehensive income	-	2 429	79 906	10 938	93 273
Shortfall on derecognition of NCI	-	-	(20 139)	(7 076)	(27 215)
Balance at 30 June 2018 (audited)	116 174	72 909	778 393	150 543	1 118 019
Total comprehensive income	-	-	54 647	9 048	63 695
Dividends paid	-	-	(82 250)	(27 040)	(109 290)
Balance at period end (unaudited)	116 174	72 909	750 790	132 551	1 072 424

CONDENSED GROUP SEGMENT REPORT

	Electrical (R000's)	Lighting (R000's)	Corporate (R000's)	Inter-Co (R000's)	Total (R000's)
Six months to 31 December 2018					
- Segment revenue	1 087 614	288 350	30 581	(49 815)	1 356 730
- Operating profit	51 870	27 225	16 317	(3 804)	91 609
- Segment assets	837 157	321 951	504 674	(177 812)	1 485 970
- Segment liabilities	314 620	130 391	26 529	(57 994)	413 546
- Net segment assets	522 537	191 560	478 145	(119 818)	1 072 424
Six months to 31 December 2017					
- Segment revenue	1 107 263	254 180	28 579	(47 619)	1 342 403
- Operating profit	70 937	26 942	14 397	(4 846)	107 430
- Segment assets	845 988	329 466	497 919	(217 268)	1 456 105
- Segment liabilities	264 333	154 123	81 137	(95 449)	404 144
- Net segment assets	581 655	175 343	416 781	(121 819)	1 051 960
Audited for the 12 months ended 30 June 2018					
- Segment revenue	2 119 913	501 876	45 882	(77 521)	2 590 150
- Operating profit	129 036	45 891	33 698	(4 299)	204 326
- Segment assets	948 957	346 540	707 199	(406 016)	1 596 680
- Segment liabilities	341 195	161 238	252 883	(276 655)	478 661
- Net segment assets	607 762	185 302	454 316	(129 361)	1 118 019

NOTES TO THE FINANCIAL STATEMENTS

BASIS OF PREPARATION AND ACCOUNTING POLICIES

These condensed unaudited consolidated interim financial statements for the six months ended 31 December 2018 have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS"), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements issued by the Financial Reporting Standards Council, the requirements of the South African Companies Act, the JSE Listings Requirements and the information required by IAS 34 *Interim Financial Reporting*. This report was compiled under the supervision of Grant Scrutton CA(SA) (Group Financial Officer). The full Board takes responsibility for the preparation of these financial results.

The accounting policies used in the preparation of these unaudited results are in accordance with IFRS and are consistent, in all material respects, with those used in the audited annual financial statements for the year ended 30 June 2018 and for the unaudited results for the six months ended 31 December 2017. Except for the new IFRS 9 and IFRS 15 standards adopted, all accounting policies applied by the Group in the preparation of these interim financial statements are consistent with those applied by the Group in its consolidated financial statements as at and for the year ended 30 June 2018. The Group measures its properties at fair value; this fair value is determined annually and accordingly no fair value adjustment was made for the interim period. For more information on the annual fair value adjustments, please refer to the annual financial statements for the year ended 30 June 2018.

Financial assets and liabilities that are sensitive to re-measurement are limited to the put option liability, the fair value of which is calculated in terms of a contractual formula which uses the average of Eurolux's past three years results (unobservable data) multiplied by 60% of the Company's PE multiple as determined by the 120 days volume weighted average share price on the JSE (subject to a cap of 7.5x and a floor of 4.0x) (observable data). This calculation is sensitive to changes in the Company's share price and Eurolux's results.

The Group has applied the expected credit loss method as detailed in IFRS 9 by using the simplified approach. The application of a provision matrix to the Group's trade receivables based on historic default rates with an adjustment for forward looking events has not resulted in a materially different position from the previous standard. The application of IFRS 9 has not resulted in a reclassification of any of the Group's financial assets or liabilities. The Group has done an assessment of its performance obligations under IFRS 15. The Group is satisfied that the performance obligations are satisfied with the Group's existing revenue recognition criteria and, as a result, there is no effect on the timing of revenue being recognised.

CHANGES TO THE BOARD

There were no changes in the Board of Directors during the period under review.

FINANCIAL ASSISTANCE TO RELATED OR INTER-RELATED COMPANIES (S45)

The holding company has provided financial guarantees and cessions of loan accounts to the Group's bankers on behalf of its subsidiary companies as security for facilities granted to them.

CONTINGENT LIABILITIES AND SUBSEQUENT EVENTS

As previously reported on SENS and as summarised above, the Group concluded the acquisition of 100% of the shares of the Radiant Group for a provisional amount of R96,4m with effect from 1 January 2019. This amount is subject to confirmation of the auditors of Radiant and appeal if the Group does not agree with this valuation. We do not believe this amount will change materially. The acquisition of the buildings that Radiant operates out of in Gauteng for R88m is substantially complete and we are awaiting Occupational Certificates and municipal rates clearance certificates. These property acquisitions will be 70% funded by a bond and the balance of these acquisition costs will be financed from existing cash resources and new loans funded proportionately by the shareholders of Eurolux.

As previously reported, the summons from a major listed construction company, in December 2015 for an amount totalling R76,4m has been settled in full on the basis of each party bearing only their own legal costs. No further exposure exists to the Group.

No other significant events have occurred in the period between the reporting date and the date of this announcement.

DIVIDENDS

ARB's policy is to distribute a single annual dividend for the full year up to a maximum of 40% of net profit after taxation attributable to ordinary shareholders. In line with this policy, no interim dividend has been declared.

APPRECIATION

The directors and management once again would like to acknowledge and thank our customers, suppliers, business partners, advisors, shareholders and staff for their continued support.

For and on behalf of the Board

Alan R Burke

Chairman

William (Billy) Neasham

Chief Executive Officer

8 February 2018

CORPORATE INFORMATION

Directors

AR Burke (Chairman)*

JS Dixon**

ST Downes**

WR Neasham (CEO)

RB Patmore^**

GM Scrutton (CFO)

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^ *Lead independent*

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