

20 February 2018

Heads up: ARB Holdings 1H18 results

Share code: ARH
Share price: 548cps
Market cap: R1.3bn
Year end: June
Recommendation: Buy

- **Overview:** ARB released positive results for 1H18. HEPS showed an upward trend in the midst of a difficult economic environment, up 34% y/y. The increase in HEPS was underpinned by the fair value adjustment relating to the Eurolux put option liability. Excluding this fair value adjustment, we estimate that HEPS grew by 18.4%. The group does not distribute an interim dividend.
- **Nature of the business:** ARB is an investment and property holding company which operates in two key segments, Electrical (63% of EBIT) and Lighting (24% of EBIT). In 1H18, Corporate Services accounted for 13% of EBIT. The group has grown organically and acquisitively over the past years and now operates 22 electrical wholesale branches. In the future, ARB aims to add a third pillar to diversify its earnings streams further.
- **Financial highlights:** Revenue increased by 5.4% to R1.3bn, operating profit grew 2.8% and the operating margin contracted slightly to 8% from 8.2% in 1H17. The effective tax rate was 25.3% (1H17: 29.8%).

At a segmental level, performance was mixed. The Electrical business benefited from store expansion and smaller project opportunities, while the Lighting unit was affected by reduced consumer spending and exchange rate volatility. Operating profit of the Electrical business increased by 12.8%. The Lighting unit saw its operating profit decline by 17%. Corporate Services contributed positively to operating profit during the period, up 2.3%.

- **Financial position and cash flows:** ARB's balance sheet is ungeared. In line with ARB's growth strategy, capital investments were undertaken in 1H18, relating mainly to the development of a new Electrical warehouse. Cash flow generated from operations was supported by good working capital management and increased by 113.2% to R56m. Net working capital was within the target range of between 20% and 25% of revenue.
- **Outlook:** The group anticipates the remainder of the year to remain challenging. Further investment spend to drive earnings growth is expected, in the form of new store rollouts and product expansion.
- In our view, the investment appeal of this counter remains intact. We believe that ARB is strategically well placed to capitalize on existing and new market opportunities, while continuing to gain market share through geographic expansion. We think that ARB's ability to generate good cash flows should continue to enhance returns to shareholders.
- **Valuation and recommendation:** Based on our current forecasts, ARB is trading on a 12-month forward PE of 8.3x and dividend yield of 6.7%. BUY

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The analyst does not have a beneficial interest in the company	<input checked="" type="checkbox"/>
The analyst holds a direct beneficial interest in the company	<input type="checkbox"/>
The analyst holds an indirect beneficial interest in the company	<input type="checkbox"/>

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