ARB Holdings delivers good profit growth despite headwinds

- **Revenue up 5% to R1.34bn**
- **Operating profit up 3% to R107m**
- **Headline earnings per share up 34% to 37.62 cents**
- **20.9% (5.88 cents) of the HEPS increase due to the put option IFRS adjustment Ungeared, with R227m net cash on hand**

15 February 2018 – ARB Holdings Limited, the investment and property holding company, today reported a 5% increase in revenue to R1.34bn (2016: R1.27bn) when it released its interim results for the six months to 31 December 2017.

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

The Group also reported a 3% increase in operating profit during the period despite a challenging trading environment. Group CEO Billy Neasham clarified that the results had been positively affected by a decrease of R13.8m in the fair value of the put option liability arising from the put option issued to the minority shareholders in Eurolux.

He added that the Electrical Division had been able to grow its turnover marginally in an extremely challenging market, through the expansion of the Connect branches and the successful pursuit of limited projects. The Lighting Division's turnover had declined as a result of the decrease in LED pricing after the removal of duties on this product in January 2017, and reduced spend by retailers in lighting products, and despite a continued strategy of expanding its product offering to customers.

"Changes in our product mix, and the emphasis on ensuring trading disciplines were maintained, had positive effects on the results," said Neasham. This was reflected in the increase of the gross profit margin to 23.3% (2016: 22.8%).

The Group's operating profit, excluding the reduction in the put option liability, increased slightly to R107.4m (2016: R104.5m) at an operating margin of 8.0% (2016: 8.2%) of revenue.

Neasham added that the Group continues to be cash generative, is ungeared and has net cash on hand of R226.6m (2016: R174.9m), after the payment of dividends during the reporting period of R118.7m (2016: R93.4m).

"The put option liability in respect of the minority shareholders in Eurolux is reflected as a current liability of R77.2m compared to R88.8m in 2016, as these non-controlling shareholders may now put their shares to the Group. They have not indicated any intention to do so. This liability is calculated in terms of a formula calculated on the average earnings of Eurolux for the preceding 36-month period, and the price earnings ratio as determined by the 120-day VWAP of the ARB Holdings Limited share price. A 13%% reduction in the share price in the four months to December 2017 resulted in this liability reducing by R13.8m. Given the sensitivity of the calculation to the share price, shareholders are cautioned that this may reverse in the short term."

Gross capital expenditure for the period was R70m (2016: R13.6m), which in the main relates to the costs involved in the acquisition of vacant land for the development of the new ARB Electrical warehousing facility in Lords View, the completion of the new building in East London to house the ARB Electrical branch, and the replacement of vehicles.

In line with our dividend policy no interim dividend was declared.

With effect from 1 February 2018, ARB Electrical Wholesalers (Pty) Ltd acquired a 60% interest in CraigCor Distributors (Pty) Ltd, a distributor of Rockwell and Honeywell products, with primary areas of responsibility in Gauteng, Western Cape, Namibia and Zambia.

Operational review

Electrical Division

The Division's revenue increase was generated by sourcing and securing opportunities from limited project orders, while the expansion of its geographic footprint through the three new Connect stores opened in the prior year has helped compensate for the decrease in large project revenues, particularly in the last quarter of the 2017 calendar year.

Neasham said that given the limited trading opportunities, the gross margin remained under pressure – predominantly in the high value cable-related products. Operating profit increased by 12.8% to R70.9m (2016: R62.8m), with an operating margin of 6.4% (2016: 6.2%).

Lighting Division

Revenue in this period disappointed as retail customer confidence reduced further and retail chain stores managed their stocks down accordingly. The Lighting Division continues to expand its product range to existing customers. Revenue decreased by 6.1% to R254.2m (2016: R270.6m). The volatile exchange rate again put pressure on margins. As a result, the operating profit decreased by 17.0% to R26.9m (2016: R32.5m), and operating margin deteriorated to 10.6% (2016: 12.0%).

Neasham commented that while Euro Nouveaux lighting showroom, opened in the prior year with a new range targeting the more discerning buyer, has received positive responses from the market, and the joint venture with Crabtree Electrical Products to distribute their products to retail customers has had little effect on the current earnings. “Changes in this agreement are in the process of being finalised to supply the Crabtree product to retailers for our own account.”

Outlook

In conclusion Neasham said that the Group foresees very little change in the general trading environment, given the low economic growth forecast for South Africa. “However, we remain confident that the Group has the resources to continue to build customer loyalty, which will create new opportunities particularly for the Electrical Division.”

The Electrical Division opened its new Connect branch in Randburg in January 2018, and is in the process of opening a store in Port Elizabeth within the next 2 months. The development of the new mega branch in Lords View is expected to be completed in January 2019. This division will continue to invest, in the medium term, in organic growth opportunities through the establishment of new distribution outlets.

“Trading margins are expected to remain under pressure and costs and working capital continue to be closely managed. The Electrical Division also has opportunities to supply product from its overhead line department to Eskom projects which are aimed at increasing its electrification target by over 200 000 households by the end of March 2018.”

Neasham added that the Lighting Division would continue to expand its product offering to existing customers. “The additional space leased in Johannesburg in an adjourning property to provide capacity for the new cut wire products and to accommodate a retail ‘ready pack’ plant is not yet fully operational. It is anticipated that this facility will contribute positively in the next 6 months results and the Euro Nouveaux division is gaining momentum and remains well positioned to take advantage of any improvement in consumer confidence.”

-Ends-

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