ARB Holdings maintains growth trajectory, showing a solid performance at half-year

Highlights:

- Revenue up 4.5% to R1 418m
- Operating profit up 16% to R106m
- Net profit after tax up 33% to R85m
- Headline earnings per share (HEPS) up 40.9% to 32.65 cents
- In line with past practice, no interim dividend is declared
- Cash generated by trading activities up 17% to R114m
- R85m net cash on hand

13 February 2020 – ARB Holdings Limited, the investment and property holding company, reported solid growth for the six months ended 31 December 2019, with a 4.5 % increase in revenue to R1.42bn (2018: R1.36bn). 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 21 electrical wholesale branches throughout South Africa, and 60% of Eurolux (Pty) Ltd, which imports and distributes light fittings, lamps and related accessories

ARB CEO, Billy Neasham, commented: “The Electrical Division turnover decreased by 4.5% to R1 038m, due to the continued lack of major infrastructure projects given the low levels of economic growth. The Lighting Division’s turnover increased by 36.1% to R396m, thanks to the inclusion of the newly acquired Radiant Lighting’s trading for the first time.”

Neasham said that the group’s operating profit had increased by 16.0% to R106.3m (2018: R91.6m) at an operating margin of 7.5% of revenue (2018: 6.8%). The gross margin increased by 1.6% to 25.1% (2018: 23.5%), due mainly to the new Lords View distribution centre (DC) rebates received and the sales contributed by Radiant, while the expenditure grew due only to the inclusion of Radiant Lighting and foreign exchange losses.

“The group also continues to be cash generative from trading activities, and remains largely ungeared, other than for the IFRS16 Right-Of-Use lease liabilities.”

ARB has net cash on hand of R84.9m (2018: R147.8m) after payment of dividends during the reporting period of R62.0m (2018: R109.3m). Net interest received decreased by 78.7% to R6.7m (2018: R12.6m), with the interest expense recognition aspect of the IFRS16 Right-Of-Use liability for the first time (R3.9m); investments over the last two years of R296m, relating mainly to the construction and fitting of the Lords View DC; the acquisition of Radiant Lighting (R96m) in the prior year; and improvements to the Radiant properties of R19.0m.

“This latter expenditure is an investment in the future and represents significant rationalisation in the Lighting Division’s infrastructure footprint.”

Neasham said that despite a strong focus by management, investment in working capital had increased by R98.0m. “The major portion of this resulted from the early purchase of stock and, therefore, the early payment of accounts payable due to the earlier Chinese New Year and more stock having to be imported and paid for in the December season cycle. In addition, Eurolux has increased stock levels to improve service levels to chain stores. Given the depressed sales in this sector, significant focus will be placed on stock levels in the second half of the year.”

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 due mainly to changes in the share price. The group’s EPS and HEPS for the six months to December 2019 have increased by 7.06 cents per share as a result of the IFRS fair value adjustment of the put option liability. This adjustment has resulted in an increase in profit for the period of R6.0m (2018: a reduction in profit of R10.6m), with the net effect of a year-on-year change of R16.6m

Electrical Division (revenue decreased by 4.5% and operating profit increased by 13.5%)
The division, which comprises ARB Electrical Wholesalers, GMC Powerlines, ARB Global, CraigCor and CED, saw a revenue decrease of 4,5%, as a result of the lack of major infrastructure projects given the continued low levels of economic growth; the lack of spend by Eskom on electrification projects; and the impact of load shedding on manufacturing and mining.

“The principal focus during the period under review has been to fully establish the distribution centre at Lords View to achieve operational efficiencies at all levels and thereby ensure that the costs do not exceed the benefits of this long-term project. The project has already contributed to increase margins for the division.”

Neasham said that power cable sales continue to decline with reducing margins, which is directly linked to the lack of infrastructure projects and increased competition from manufacturers, both directly and through other cable traders.

“Despite the acquisition of GMC in March 2019, overhead line product sales have been disappointing because of the inconsistent spend by Eskom on electrification projects. Low voltage sales, which have benefitted from the connect model expansion in prior years, continue to improve and margins are being maintained on these products.”

He added that notwithstanding the abovementioned challenges, the division had reduced operating expenditure to achieve an increase in operating profit of 13,5%, with the focus on working capital ensuring it remains strongly cash generative.

Lighting Division (revenue increased by 37.3% and operating profit by 2.2%)
This division comprises Eurolux, Radiant and Cathay Lighting. Revenue was positively impacted by the inclusion of Radiant’s turnover for the six months to December 2019, partially offset by the volatile exchange rate and the lack in consumer confidence, which impacted the majority of ARB’s retail customers.

"Sales in lamps were negatively affected by changes in technology, which resulted in the division pursuing a strategy of substitution with other electrical products that are less expensive and more durable. These technological changes, together with delays in the implementation of retailer forex-related price increases, resulted in a decline in gross margin."

Neasham added that the focus over the past six months had been on consolidating the Johannesburg operations into the Radiant Lighting premises in Wynberg. "Originally this was anticipated to be completed by August 2019, but delays in the software integration of Radiant resulted in the consolidation occurring over the December 2019/January 2020 shut-down period. As a result, the envisaged cost saving from combined facilities will not be achieved until the last quarter of the June 2020 financial year."

He commented that the management of working capital, particularly stock, remains a key focus. "Stock levels were particularly high at the end of December 2019 due to the additional orders placed in anticipation of the Chinese New Year, which was considerably earlier than in previous years."

Corporate Division (revenue up by 34.9 %, operating profit up by 62.5%)
This division comprises the property portfolio and Xact ERP Solutions business. The increase in operating profit resulted mainly from the additional rental in respect of the Lords View development from January 2019. "Given the fixed nature of the property income, and the low corporate head office costs, the results are in line with expectations."

Neasham said that Xact ERP Solutions continues to develop a stand-alone identity relative to its target market. "This business continues to show customer gains, but remains a small revenue and profit generator for the division."

Outlook
Commenting on corporate activity and expansion plans, Neasham said that acquisitions remain an integral part of the group's growth and expansion strategy. "The board has decided to continue to explore acquisition opportunities that may present themselves. However, the immediate focus is to fully integrate the Radiant acquisition with Eurolux and manage the Lords View DC into an effective operating facility."

Looking to the future, he said that ARB foresees little or no improvement in the general trading environment, given the low economic growth forecast for South Africa.

"However, 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 remains capable of taking advantage of any improvement in trading conditions when the economy improves."

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