ARB Holdings Limited reports revenue up; new businesses in the mix adds to growth story

- Headline Earning Per Share (HEPS) up 15.9% to 71.7 cents
- Dividend unchanged at 25 cents per share
- Special Dividend maintained at 10.0 cents a share
- Cash on hand of R259 million after R106 million of Capex, and after payment of a dividend of R119
- IFRS effect on earnings of 13.6 cents (19.5%) (2017: 1.77 cents)
- Due diligence in process for the acquisition of Radiant Lighting

16 August 2018 – JSE-listed investment and property holding company ARB Holdings Limited, which owns 74% of ARB Electrical Wholesalers, a level 2 BEE company which operates 23 (2017: 21) electrical wholesale branches throughout South Africa, and 60% of Eurolux, an importer and distributor of light fittings, lamps and related accessories, today released results for the year ended 30 June 2018. The Group reported an increase in revenue of 4.5% to R2.59 billion, 2.5% of which came from new operations.

"While the economy remains difficult with no clear momentum, this can be seen as a pleasing set of results, given the tough trading conditions," said Group CEO Billy Neasham, adding that the IFRS effects of the Put Option Liability relating to the Eurolux minorities had resulted in reported earnings per share being 11.6% higher than last year, whereas operating profit was 5.7% lower.

The Electrical Division's revenue increased by 6.2%, although constrained by limited government infrastructural spend and a decline in local mining and manufacturing activities. The Lighting Division was adversely affected by the decline in retail sales, especially in the first six months of the financial year, when South African consumer confidence was particularly low.

Neasham commented that given the increase in revenue, the Group managed to grow gross profit by 3.5% through disciplined trading practices. Overheads had increased by 7.5% due to the addition of two new branches in the electrical division, the CraigCor transaction and new investment in capacity in the lighting division.

During the year ARB acquired 60% of CraigCor Distribution Company, which has exclusive rights to distribute the Allan Bradley range of Rockwell Automation products in Gauteng, the Western Cape, Namibia and Zambia, as well as exclusive distribution rights for the Honeywell range of sensors and control systems in the SADAC region.

After year-end, the Group also announced its intention to acquire 100% of Radiant Group Proprietary Limited (Radiant), as well as the properties that Radiant operates out of, from South Ocean Holdings. The transaction is still subject to several conditions, including the approval of the transaction by the directors of ARB, South Ocean Holdings shareholders, and the Competition Commission. "If the transaction is successful, Radiant will add a product range and route to market for the Lighting Division and add to its operational capacity," remarked Neasham.

The Group maintained its dividend of 25 cents per share, and again declared a special dividend of 10 cents per share.

Electrical Division (Revenue up 6.2%, operating profit down 3.8%)
The Electrical Division's results reflect the low levels of economic activity in the construction, mining and manufacturing sectors. "Unfortunately, there was no discernible trend to give any indication of sustainable momentum in the economy, or the sectors in which we trade, during the year," said Neasham.

"Low infrastructure spend, worsened by the slowdown in Eskom's electrification efforts, made for a really challenging trading environment. Added to this was an increase in business rescue cases that impacted on our customers and ultimately the division's profitability."

Neasham said working capital remained a top priority for the division and continues to be well managed.

Lighting Division (Revenue up 1.7%, operating profit down 20.6%)
Some successes have been achieved in this division, mainly from retail sales and the finalisation of the assembly and manufacturing plant. "The benefits of working with our suppliers and customers by re-ranging our products in the retail space and redesigning store layouts, was reflected in the increased turnover in the second half of the year. The new packaging and assembly plant is already in production, with innovative products being identified to grow the product range. Continuity of supply has also been enhanced."

Whilst trading margins improved, despite the volatile exchange rate and the competitive trading environment, Neasham said that working capital management in this division remains a challenge given the long lead times for supply.

Corporate Division (Revenue up 10%, PBIT up 72%)
The division includes the property portfolio and the ARB IT business. "Given the fixed nature of the property rental income, the results remain in line with expectations."

During the year, the construction of the East London property was finalised on time and in budget at a total cost of R23 million. The development of the new 42,000 m^2 Gauteng distribution centre in Lords View in Midrand has commenced and is anticipated to be completed and ready for occupation by December 2018, at a total cost of R140 million. This is despite being exposed to delays arising from community action prevalent at many construction sites in South Africa currently.

The IT company has been rebranded from 'ARB-IT' to 'Xact ERP Solutions' to differentiate itself from the electrical operation in its target market. It continues to show customer gains but remains a small revenue generator for the division.

Outlook
Neasham said that little change is expected in the outlook for the economy during the next financial year. "We remain focused on leveraging the limited opportunities which exist and are adjusting the existing business model accordingly."

The Electrical Division forecasts another challenging year and the relocation of the Alrode branch to Lord's View will enable it to remain focused on improving the performance of the existing operations while creating the operational capacity to expand the number of stores. "Any positive developments in Eskom project expenditure, and any other government funding, will have a positive effect on the Overhead Line sector of the business."

He added that the new distribution centre in Lords View will improve the division's stock holding and management model, with a savings in total stocks being achieved through logistical advantages. "Initially this will increase the costs of the business significantly but will be partially funded from DC allowances to be secured from suppliers."

The Lighting Division's strategy is to grow market share and to introduce new product ranges to its existing customer base. "The packaging plant is expected to be profitable during the coming year, and the Euro Nouveau range, together with project lighting, is expected to show growth in the new year. Provided the regulatory approvals are obtained, the Radiant transaction is anticipated to be finalised towards the end of the calendar year. Initially we anticipate additional costs to be incurred in merging the businesses, particularly in Johannesburg, but the new product range and new sectors serviced will add significantly to the business service offering."

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