Press release

ARB reports revenue up to R2.7bn, with new businesses contributing to growth

Highlights:

- Revenue up 4.5% to R2 706m (2018: R2 590m)
- Headline earnings (“HEPS”) per share down 18.8% to 58.20 cents
- Dividend per share maintained at25.00 cents
- Cash on hand of R180,9m (2018: R259,4m), after paying dividends, capital expenditure and acquisitions of R316,1m

15 August 2019 – JSE-listed investment and property holding company ARB Holdings Limited, owning 74% of ARB Electrical Wholesalers, a level 2 BEE company operating 22 (2018: 23) 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 2019. The group reported an increase in revenue of 4.5% to R2.7bn, helped by the inclusion of CraigCor for a full year, and Radiant for six months.

“The continued low growth environment and unstable local economy made for tough trading conditions, which we certainly don’t expect will change in the coming months. In light of this, this was a disappointing performance given extremely challenging circumstances,” said group CEO Billy Neasham.

“The total gross margins percentage improved slightly, mainly due to the change in product sales mix, with the introduction of Radiant for six months. The electrical wholesale operations’ margin declined as a result of competitive pressures from the reduced trading opportunities. This resulted in an increase in gross profit of R35.2m”

Operating profit was down 24.2% to R155.4m (2018: R204.3m), with operating margin declining to 5.7% (2018: 7.9%). This was largely due to the poor performance of the electrical wholesale business.

Neasham said that overheads continue to be closely managed and are constantly reviewed. “The 19.3% increase is predominantly attributable to the inclusion of the Radiant overheads for six months, and of the full year for CraigCor. The decrease in interest was as a direct result of the cash utilised to finance the Radiant acquisition, together with the cost of the Lords View property development.”

Headline earnings per share declined by 18.8% to 58.20 cents per share, compared to 71.70 cents in the prior period.

“Shareholders should also remember the effect that the change in the Eurolux and CraigCor put option liabilities has on earnings. In the current year there was a reduction in these liabilities of R21.2m, compared to R26.0m last year, reducing earnings by R4.8m in the current year. These liabilities are sensitive to the average earnings of the subsidiaries, Eurolux and CraigCor, and to the price earnings ratio of the group as a whole.”

Electrical division (revenue down 1.1% and operating profit down 33.7%)

This division comprises ARB Electrical Wholesalers, ARB Global, CraigCor and CED, together with the recently-acquired GMC Powerlines business, which imports overhead line products, a number of which are included on the Eskom LAP list, and are also promoted for sale to other African countries

“Divisional revenue remains hampered by the lack of any real economic growth or infrastructure expenditure in South Africa. The challenges that have occurred with the major companies in the construction sector also negatively impacted the electrical wholesale operation during the year under review,” said Neasham, adding that the division had benefited from a strong performance by CraigCor, acquired in February 2018, which showed significant growth, thus countering the poor performance of the electrical wholesale operation.

“Another challenge has been the difficulty experienced by the cable manufacturers with the lack of copper supplies, particularly in the first half of our financial year, which resulted in short supplies of certain products.”

Neasham said this was compounded by a change in strategy of a major supplier, which is now directly supplying ARB’s customers. This, together with the decline in the number of projects available, has put pressure on margins.

Indirect supply of overhead line products to Eskom via contractors declined substantially, mainly as a result of the decline in electrification projects being awarded during the year. “We believe that this sector will show growth as the need to electrify rural areas remains a priority of national government. Consequently, the division acquired GMC in March to ensure we are well positioned to benefit from this.”

Lighting division (revenue up 29.3% and operating profit down 22.9%)
This division consists of Eurolux, Radiant and Cathay Lighting. Revenue was positively impacted by the inclusion of Radiant’s turnover for the six months to June 2019, which was partially offset by the volatile exchange rate and the lack in consumer confidence.

“The decline in gross margin during the period was affected by having to dispose of excess emergency lighting stock and the impact of the volatile exchange rate on the nature and timing of the products we import.”

Neasham added that Radiant’s sales had been disappointing in the first six months as part of the division, due to the internally-focused drive to restructure the organisation and re-motivate the staff. Now that this has been accomplished, energy is now being focused on growing market share, with a motivated sales force and an extended product range in place.

The division continues to manage the challenges that exist in ensuring compliance in the issuance of letters of authority by the National Regulator of Compliance Specifications for the enlarged product range.

Overheads still approximately 29% of revenue of the enlarged division, notwithstanding that there are certain once-off costs associated with the restructuring and integration of Radiant into this division. Neasham said that further restructuring costs are expected in the next six months as the Johannesburg operations are combined, thereafter benefits are expected from the reduction in the combined, group-owned buildings.

Corporate division (revenue up 21.0 % and operating profit up 33.5%)
This division comprises the property portfolio and Xact ERP Solutions business. The increase in operating profit has resulted mainly from the additional rental in respect of the Lords View development from January 2019. “Given the fixed nature of the property rental income, the results are in line with our expectations.”

During the year the development of the 42 000m² site purchased in Lords View in April 2017 to house the ARB electrical distribution centre was completed. Beneficial occupation occurred in late December 2018, despite the many work stoppages on site due to demands by local residents for non-existent jobs. The facility has cost R145m, of which R70m was incurred in the current financial year. The entire project has been funded out of internal resources. The Alrode site has now been let externally on a short-term basis, with the intention being to dispose of this property to fund future operations and expansion.

Xact ERP Solutions continues to develop a stand-alone identity relevant to its target market. This business unit has continued to show customer gains, but remains a small revenue and profit generator for the division.

Outlook
"While acquisitions remain an integral part of our growth and expansion strategy, our immediate focus is now on fully integrating the Radiant acquisition with Eurolux and managing the Lords View distribution centre into an effective operating facility."

Neasham concluded that the group remains profitable and cash generative, ensuring that it is well placed to take advantage of any significant upturn in the South African economy. "Given that our prospects are driven by the performance of the general economy, and that our outlook for the South African economy in the short to medium term is 'more of the same', we will need to remain cautious and look at rightsizing the operational structures, particularly in the Electrical Division. A period of consolidation makes sense in the current trading environment."

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