ARB Holdings Limited

ARB reports solid results despite tough economic market

- **Revenue up 12,4% to R1,24 billion**
- **Operating profit up 10,9% to R108,4m**
- **Headline earnings per share up 12,1% to 27,79 cents**
- **Ungeared with R190,9m net cash on hand**

Wednesday, 17 February 2016 – Investment and property holding company ARB, with investments in electrical wholesaling and lighting distribution, today released its interim results for the six months ended 31 December 2015, reporting an increase in revenue of 12,4% to R1,24 billion. Operating profit increased to R108,4 million, a 10,9% improvement on the prior period. ARB has investments in closely-related trading and distribution businesses, including 74% of ARB Electrical Wholesalers (Pty) Ltd, a level 3 BBBEE company that operates 19 electrical wholesale branches throughout South Africa and 60% of Eurolux (Pty) Ltd, which imports and distributes light fittings, lamps and related accessories. The company also holds exclusive rights to distribute various leading international electrical products into the SADC region.

"I am pleased with the solid performance of the Group, particularly given the challenges facing the South African economy," says Group CEO Billy Neasham. "The Lighting division continued to show pleasing market share gains, while the Electrical division was able to grow its turnover in what has been an extremely challenging market. Moreover, the Group maintained trading disciplines, which ensured that the gross profit margin remained unchanged at 22,4%."

Although the operating profit grew 10,9% to R108,4 million (2014: R97,8 million) the operating margin remained almost unchanged at 8,8% of revenue.

The Group continues to be cash generative and has maintained its strong focus on the management of working capital. "While debtors grew 43% to R428,5 million as a result of extended terms to specific contractors, similar extended terms were negotiated with our suppliers, resulting in a 38% increase in creditors."

Net working capital improved to 20,8% of annualised turnover, and notwithstanding the payment of dividends during the period of R89,9 million, net interest received increased by 18% to R8,9 million.

Gross capital expenditure for the period was R7,5 million, which predominantly entailed the replacement of vehicles and the costs related to the roll out of the additional Connect Stores in the electrical division. The Group maintained its robust balance sheet, which remains ungeared with net cash on hand of R190,9 million.

In line with ARB's policy to distribute a single annual dividend for the full year up to a maximum of 40% of net profit after taxation attributable to Ordinary Shareholders, no interim dividend was declared.

Subsequent to 31 December 2015 the company concluded an agreement to sell its Reuven property for a net consideration of R8,2 million. There was no effect on headline earnings per share and the transaction is uncategorised in terms of the JSE Listings requirements.

Operational review

Electrical division

The division, which reported an increase in revenue of 12,2%, continues to operate in an extremely challenging environment, with a dearth of any significant infrastructure projects and Eskom's lack of electrification projects.

"Revenue growth was achieved from an increase in municipal electrification projects, ahead of the municipal elections, and persistence in securing orders in some of the limited project opportunities available in the market. However, with the limited trading opportunities, the gross margin continues to be under pressure."

Operating profit increased 8,4% to R64,1 million, with operating margin of 6,4%.

Referring to the summons received by ARB Electrical Wholesalers in December 2015 as a third defendant from a major listed construction company totalling R78 million, Neasham said that the claim is primarily against the construction company's insurer in terms of a professional indemnity policy, with the claim on ARB Electrical being an alternative claim.

"Attorneys have been appointed to defend the matter as management believe that that there is no reasonable justification for this claim."

Lighting division

Despite the competitive environment in which the Lighting division operates, it continued to show pleasing market share gains and an expanded product range. Revenue was up 19,8% to R255,9 million.

"The volatility in the exchange rate has put pressure on gross margins; however, through the management of overheads, the operating profit increased 27,5% to R29,8 million and operating margin improved to 11,6%. The new joint venture with Crabtree Electrical Products to distribute their products to our retail customers has had little effect on the current earnings but is starting to show potential for future growth."

Outlook

Neasham says that while there are short-term opportunities for the Electrical division in the run up to the municipal elections, there remain a number of structural challenges in the South African economy, including but not limited to, a low growth forecast, a decline in mining and manufacturing activities, an abnormally volatile exchange rate and very limited infrastructure spending.

"However, the Lighting division is expected to continue its growth with further market share gains and the introduction of additional products to its existing customer base, while the Electrical division is expected to continue 'mining' the limited project opportunities. On this basis it's essential that we maintain our disciplined approach to working capital management and continue to optimise the operational efficiencies of the existing businesses, while continuing to evaluate acquisition opportunities at the corporate level," he concludes.

Ends

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