ARB Holdings Limited

# ARB Holdings reports strong half-year performance

***Improved trading conditions and experienced management team able to deal effectively with lockdowns ensures outstanding results***

**Highlights:**

- Revenue up 5.3% to R1.49bn (2019: R1.42bn)
- Operating profit up 59.2% to R169m (2019: R106m)
- Net profits after tax up 28.9% to R109m (2019: R85m)
- Headline earnings per share ("HEPS") up 25.9% to 41,12 cents (2019: 32.65 cents)
- In line with past practice, no interim dividend has been declared
- Cash generated by trading activities up 60% to R182m (2019: R114m)
- Net tangible asset value per share up 9.6% to 473.73 cents (2019: 432.40 cents)
- R305m cash on hand (2019: R85m)

***11 February 2021*** – ARB Holdings Limited, the investment and property holding company, reported a strong performance for the six months ended 31 December 2020, with a 5.3% increase in revenue to R1.49bn (2019: R1.42bn). 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 20 electrical wholesale branches throughout South Africa, and 60% of Eurolux (Pty) Ltd, which imports and distributes light fittings, lamps and related accessories

CEO Billy Neasham said that key achievements during the period included significant improvements in operating profit and operating margin. "This was largely the result of our trading environment improving significantly over the six months despite the economic effects of the pandemic related lockdowns applicable during the period."

Neasham added that ARB's financial position is robust and its cash flow has been resilient in challenging circumstances. "These results truly demonstrate our ability to bounce back from adverse trading conditions, such as the lockdowns, and the ability of a highly experienced and skilled management team to reduce the costs of a largely fixed-cost business to maximise the operational leverage from an improvement in revenue and gross margin, resulting in enhanced returns to shareholders."

Operating profit also showed substantial improvement, increasing by 59.2% to R169.2m (2019: R106.3m) at an operating margin of 11.3% (2019: 7.5%) of revenue. Gross margin increased from 25.1% to 26.5%, mainly attributable to increased margins in both major trading divisions.

Neasham said that while ARB had experienced some challenges in its supply chain, both locally and internationally, having stock available proved to be a significant factor in the group's success during the period. "While we were overstocked, particularly the lighting division, at the June financial year end, this was beneficial, not only in terms of having stock on hand, but also because the stock had been acquired at favourable rand/US Dollar prices."

He added that the group remains committed to constantly reviewing its operating models and procedures to gain efficiencies and cost savings as market conditions change. "Unfortunately, both divisions went through S189A retrenchment processes during the period and froze a number of vacant positions as a result of the effects of the pandemic."

The new warehouse management system implemented at the group's Lords View distribution centre in Midrand went live on 14 December 2020. "However, we have been consistent in advising the market that the real benefits of this system will only be effective after June 2021."

Shareholders have also been regularly advised that the valuation of the liability of the put options of minority shareholders in Eurolux is volatile, and may increase or decrease significantly in the short term, mainly due to changes in the share price. The put option revaluations are reflected as a significant charge of R20.8m on earnings during the period, whereas in the prior comparative period, this was income of R6m; a combined negative change of R26.8m.

The group's earnings per share ("EPS") for the six months to December 2020 increased by 24.8% to 41.02 cents per share (2019: 32.87 cents). Headline earnings per share ("HEPS") were up by 25.9% to 41.12 cents per share(2019: 32.65 cents).

The group has cash on hand of R304.7m (2019: R84.9m), a substantial increase over the prior comparable period. Neasham said that cash generation had been very positive during the last six months, partly as a result of the improvement in working capital management, particularly with regards to stock levels in the lighting division; exceptional debtors' collections in the electrical division; cost savings and efficiencies, and of the conscious decision not to pay a dividend at year end to retain cash reserves during the uncertainty of the Covid-19 pandemic.

ARB continues to take all appropriate actions to protect staff; preserve cash; defend its balance sheet and minimise its operating costs given the current circumstances. All health and safety requirements for the management of people to prevent or restrict Covid-19 transmissions are adhered to in all ARB operations. The stringent adherence to rules for the protection of employees is now a way of doing business at ARB.

The group continued to honour all of its supplier payments on time and in full during this period.

***Electrical division: revenue increased by 5.0% and operating profit up 60.9%.***
The division comprises ARB Electrical Wholesalers, GMC Powerlines, ARB Global, CraigCor and CED. "The electrical division yielded a significant improvement in operating profit, mainly due to an improvement in the gross margin from trading and other cost-saving efforts, despite the lack of economic growth or infrastructure development in South Africa, and the lingering effects of Covid-19 and the associated lockdowns."

***Lighting division: revenue increased by 5.8% and operating profit by 94.9%***
The division comprises Eurolux, Radiant and Cathay Lighting. Profitability improved substantially over prior years largely due to the effects of the rationalisation from the integration of the Eurolux/Radiant facilities in Johannesburg, which is now starting to reflect significant savings. While the lighting division was previously overstocked, Neasham said that this position has positively affected the results in the period, and also resulted in a slight increase in market share.

***Corporate division: revenue decreased by 4.9% and operating profit increased by 2.9%***
This division comprises the property portfolio and Xact ERP Solutions business. "The results are down, but in line with expectations, given the fixed nature of the property rental income, and the reduction in rentals received during the lease renewals on 1 July 2020 as a result of Covid-19."

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

**Outlook**
"It is likely that the biggest challenge will be planning around any possible future waves of the pandemic. It appears that normality in markets and many aspects of daily life will only return in 2022, or thereafter. While the board indicated at the 2020-year end that it could take two to three years for life to normalise, some economists believe that it could take 48 months just for the South African economy to revert to 2019 levels."

Neasham said that fortunately, the return to Level 3 restrictions in December 2020 were not as restrictive from a business perspective, but certainly any Government, Eskom or large project work in South Africa has slowed down substantially, so the visibility for planning purposes remains low.

"The group and its customers are, however, facing pressure from credit insurers, who are cutting cover limits, increasing co-insurance levels and charging increased premiums. The latter will aggravate the risk of credit loss to the group and could hamper revenue generation as we limit our credit risk exposure. However, we remain committed to ensuring that we maintain sustainable operations capable of taking advantage of any short- or medium-term improvements in the South African economy."

The group has restructured its cost base to be profitable at these trading levels and this bodes exceptionally well for ARB in the short- to medium-term. "We remain strongly positioned to service the electrical needs of southern Africa, which will provide above average long-term growth and returns, as the continent increases its electricity generation and usage."

Neasham concluded by saying that the group has significant financial resources, geographical footprint, distribution capability and a well-established management team that can lead the business into the future.

**-Ends-**

---


| | |
|---|---|
| **Issued on behalf of:** | **ARB Holdings Limited** |
| Contact: | Billy Neasham, Chief Executive Officer |
| Tel: | +27 31 910 0203 |
| | |
| **Compiled and released by:** | **Keyter Rech Investor Solutions** |
| Contact: | Deborah Chapman |
| Tel: | +27 87 351 3816 |
| Email: | deborah@kris.co.za |
| | |
| **JSE code:** | ARH |
| **Website:** | www.arbhold.co.za |