

**ARB Holdings Ltd**  
**H1:18 Results – Improving Prospects**

Share Code: ARH – Market Cap: R1.3bn – PE: 7.6x – DY: 3.65%

<b>12m Target Price</b>	<b>911cps</b>
<b>Share Price</b>	<b>540cps</b>
<b>Implied Return</b>	<b>69%</b>

Industrials | [South Africa](#)

**H1:18 – Operationally Robust**

- ARB Holdings reported revenue +5% for H1:18 and operating profit growing +3%.
- The mark-to-market fair value changes in the Put Option for Eurolux distorted the IFRS numbers by 5.9cps, but excluding this effect, the Group’s HEPS would have been +13% y/y to 31.72cps (H1:17 – 28.07cps). This is materially better than our bottom-line expectations for FY 18E.
- One sore point in the Group’s results was its Lighting segment where revenue slipped and profits felt pressure as consumer destocking, technology and delays combined.
- Post-reporting period, the Group acquired a 60% interest in Craigcor for a maximum consideration of R30m. The business is a process automation distributor for Rockwell Automation products.

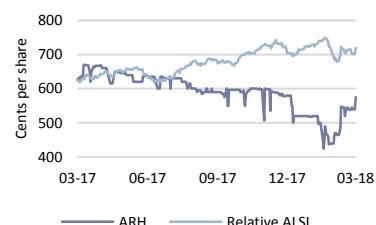
**Our Thoughts: Well-positioned for an ‘SA Inc’ Recovery**

- While risks remain and ‘big ticket’ infrastructure spend roll-out is always lagging, ARB Holdings is extremely well to benefit from the de-risking of South Africa, the recovering sentiment and the potential recovering domestic economic activity.

**Forecast, Valuation & Implied Return: Getting Exciting...**

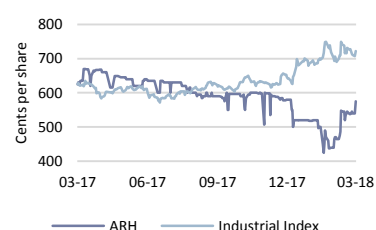
- We raise our estimated fair value for ARH to 777cps (previously: 687cps), which puts the stock on an implied Price Earnings (PE) of 10.0x and implies that it is currently c.44% undervalued.
- In our opinion, this 10.9x PE is reasonable when measured against either itself or comparatives.
- Rolling our fair value forward at our Cost of Equity (CoE) we arrive at a 12m TP of 911cps (previous 12m TP: 809cps).
- A 12m TP of 911cps places the share on a fair Exit PE of 14.5x, though we note a number of timing and environmental risks to our view.
- Our 12m TP implies a return of c.69%.
- Despite improving domestic sentiment, key risks to the Group are unchanged from our original [Initiation of Coverage](#).

**Share Price against the ALSI**



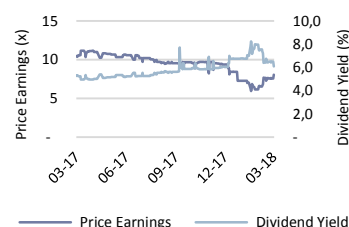
Sources: Bloomberg, Blue Gem Research

**Share Price against the Industrial Index**



Sources: Bloomberg, Blue Gem Research

**Price Earnings (x) and Dividend Yield (%)**



Sources: Bloomberg, Blue Gem Research

Key Forecast (R m)	FY 15A	YoY %	FY 16A	YoY %	H1:17A	FY 17A	YoY %	H1:18A	FY 18E	YoY %	FY 19E	YoY %
Revenue	2151	-3%	2490	16%	1274	2479	0%	1342	2637	6%	2952	12%
EBITDA	208	-3%	228	10%	112	228	0%	128	246	8%	281	14%
HEPS (cps)	51.7cps	3%	59.7cps	16%	28.1cps	61.9cps	4%	37.6cps	65.6cps	6%	69.9cps	7%
Return on Equity (%)	16.7%	-	17.2%	-	16.3%	17.3%	-	20.3%	16.5%	-	15.8%	-
Price Earnings Ratio (x)	10.4x	-	9.0x	-	9.6x	8.7x	-	7.2x	8.2x	-	7.7x	-
DPS (cps)	30.0*	0%	33.9*	13%	10.0*	35.0*	3%	-	26.2	-25%	28.0	7%
Dividend Yield (%)	5.6%	-	6.3%	-	1.9%	6.5%	-	0.0%	4.9%	-	5.2%	-

Sources: ARB Holdings, Bloomberg, Iress, Blue Gem Research; \* FY 15, 16 and 17’s total distributions include a special dividend of 10cps



twitter.com/BlueGemResearch  
facebook.com/BlueGemResearch

**Keith McLachlan\***



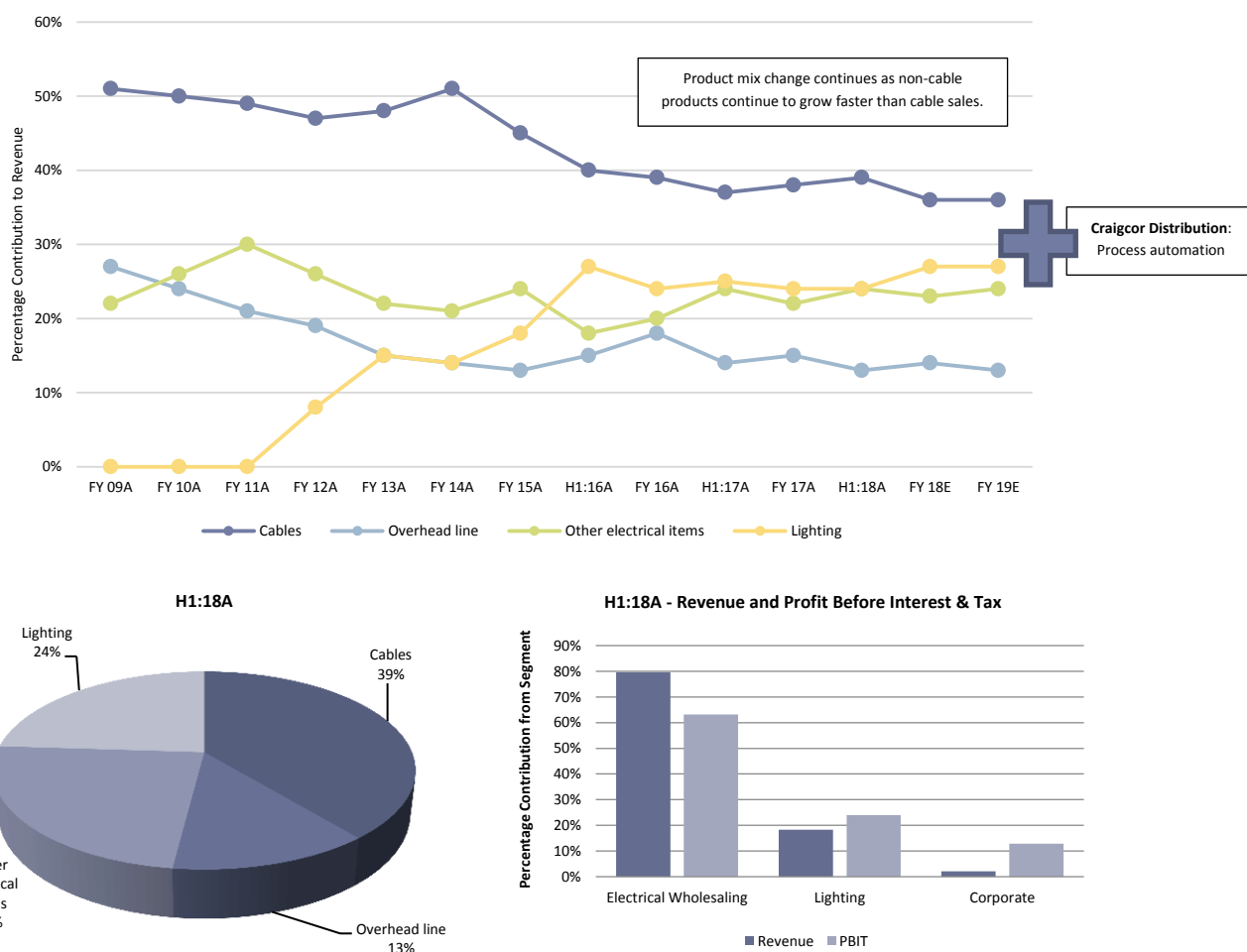
Key Forecast (R m)	FY 15A	YoY %	FY 16A	YoY %	H1:17A	FY 17A	YoY %	H1:18A	FY 18E	YoY %	FY 19E	YoY %
<b>Revenue</b>	<b>2151</b>	<b>-3%</b>	<b>2490</b>	<b>16%</b>	<b>1274</b>	<b>2479</b>	<b>0%</b>	<b>1342</b>	<b>2637</b>	<b>6%</b>	<b>2952</b>	<b>12%</b>
Electrical												
Wholesaling	1741	-7%	2006	15%	1018	1996	0%	1107	2176	9%	2459	13%
Lighting	425	21%	507	19%	271	511	1%	254	490	-4%	525	7%
<b>Gross Profit</b>	<b>517</b>	<b>-2%</b>	<b>548</b>	<b>6%</b>	<b>290</b>	<b>594</b>	<b>8%</b>	<b>313</b>	<b>617</b>	<b>4%</b>	<b>685</b>	<b>11%</b>
Gross Profit Margin (%)	24.1%	-	22.0%	-	22.8%	24.0%	-	23.3%	23.4%	-	23.2%	-
Operating expenses	-325	-1%	-338	4%	-188	-388	15%	-209	-419	8%	-439	5%
<b>EBITDA</b>	<b>208</b>	<b>-3%</b>	<b>228</b>	<b>10%</b>	<b>112</b>	<b>228</b>	<b>0%</b>	<b>128</b>	<b>246</b>	<b>8%</b>	<b>281</b>	<b>14%</b>
EBITDA Margin (%)	9.7%	-	9.2%	-	8.8%	9.2%	-	9.6%	9.3%	-	9.5%	-
Operating Profit/(Loss) Before Interest	197	-3%	217	10%	105	214	-1%	121	223	4%	256	15%
Interest Received	15	32%	12	-21%	7	22	82%	14	28	27%	11	-61%
Finance Charges	-	-100%	-	0%	-	-	0%	-	-	0%	-	0%
<b>Net Profit (Parents)</b>	<b>122</b>	<b>3%</b>	<b>136</b>	<b>12%</b>	<b>65</b>	<b>147</b>	<b>8%</b>	<b>89</b>	<b>154</b>	<b>5%</b>	<b>164</b>	<b>7%</b>
Weighted Ave. Number of Shares (millions)	235.0	0%	235.0	0%	235.0	235.0	0%	235.0	235.0	0%	235.0	0%
<b>EPS (cps)</b>	<b>51.7</b>	<b>3%</b>	<b>57.7</b>	<b>12%</b>	<b>27.8</b>	<b>62.4</b>	<b>8%</b>	<b>37.7</b>	<b>65.6</b>	<b>5%</b>	<b>69.9</b>	<b>7%</b>
<b>HEPS (cps)</b>	<b>51.7</b>	<b>3%</b>	<b>59.7</b>	<b>16%</b>	<b>28.1</b>	<b>61.9</b>	<b>4%</b>	<b>37.6</b>	<b>65.6</b>	<b>6%</b>	<b>69.9</b>	<b>7%</b>
Gross Ordinary DPS (cps)	30	0%	34	13%	10	35	3%	*	26	-25%	28	7%
Dividend Yield (%)	5.6%	-	6.3%	-	1.9%	6.5%	-	3.6%	4.9%	-	5.2%	-
Dividend Cover (x)	1.7x	3%	1.8x	2%	2.8x	1.8x	0%	-	2.5x	41%	2.5x	0%
Property, Plant & Equipment	222	8%	226	2%	231	237	5%	290	401	69%	434	8%
Intangible Assets	84	0%	78	-7%	78	78	0%	78	78	0%	78	0%
Current Assets	967	4%	1122	16%	1030	1198	7%	1081	1111	-7%	1276	15%
Net Cash	227	15%	243	7%	175	307	26%	227	213	-31%	231	8%
Cash	227	15%	243	7%	175	307	26%	227	213	-31%	231	8%
Overdraft	-	-	-	-	-	-	-	-	-	-	-	-
Interest-bearing Liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Shareholder's Equity (Parent)	769	8%	825	7%	813	899	9%	905	991	10%	1090	10%
Non-current Liabilities	115	8%	126	10%	42	41	-67%	42	30	-28%	32	7%
Current Liabilities	255	-11%	320	26%	328	412	28%	362	380	-8%	450	18%
NAV per share (cps)	322.5	9%	351.1	9%	345.9	382.5	9%	385.2	421.9	10%	463.8	10%
TNAV per share (cps)	292.8	11%	322.0	10%	318.4	353.9	10%	357.5	388.8	10%	430.7	11%
Cash Generated by Operations	170	19%	168	-1%	55	212	26%	120	226	6%	204	-10%
Cash Conversion Ratio (%)	82%	-	74%	-	49%	93%	-	94%	92%	-	73%	-
Net Cash Flow from Financing Activities	-14	-44%	-10	-26%	-13	-14	33%	-59	-187	>100%	-58	-69%
Net Increase / (Decrease) in Cash	-0	-99%	-7	>100%	-	-	-100%	-	-29	-	2	-106%
Return on Equity (%)	16.7%	-	17.2%	-	16.3%	17.3%	-	20.3%	16.5%	-	15.8%	-
Return on Capital Employed (%)	13.4%	-	14.7%	-	14.4%	13.4%	-	15.4%	12.6%	-	13.1%	-
Return on Assets (%)	12.0%	-	11.2%	-	11.6%	11.3%	-	13.8%	11.3%	-	10.7%	-
Price Earnings Ratio (x)	10.4x	-	9.0x	-	9.6x	8.7x	-	7.2x	8.2x	-	7.7x	-
Price-to-Book (x)	1.7x	-	1.5x	-	1.6x	1.4x	-	1.4x	1.3x	-	1.2x	-
Price-to-Tangible-Book (x)	1.8x	-	1.7x	-	1.7x	1.5x	-	1.5x	1.4x	-	1.3x	-
Current Ratio	3.8x	-	3.5x	-	3.1x	2.9x	-	3.0x	2.9x	-	2.8x	-
Quick Ratio	2.3x	-	2.1x	-	1.7x	1.8x	-	1.7x	1.7x	-	1.7x	-

Sources: ARB Holdings, Bloomberg, Iress, Blue Gem Research workings, assumptions and forecasts; \* Only final dividends declared.

## H1:18 Results Highlights

- ARB Holdings reported revenue +5% for H1:18 and operating profit growing +3%. Both these measures are in line with our FY 18E of +6% y/y and +4% y/y revenue and operating profit forecasts.
- The mark-to-market fair value changes in the Put Option for Eurolux distorted the IFRS numbers by 5.9cps, but excluding this effect, the Group’s HEPS would have been +13% y/y to 31.72cps (H1:17 – 28.07cps). This is materially better than our bottom-line expectations for FY 18E.
- Both this latter point and the positive developments in South Africa’s political landscape have necessitated us lifting our FY 18E (and beyond) forecasts and fair value.
- One sore point in the Group’s results was its Lighting segment where revenue slipped and profits felt pressure as consumer destocking, technology and delays combined to miss our expectations.
- Interestingly, post-reporting period, the Group acquired a 60% interest in Craigcor for a maximum consideration of R30m. The business is a process automation distributor for Rockwell Automation products. While this business is relatively small, initial impressions on its barriers to entry, access to intellectual property, operations and upside are very promising. Note that given its size and newness, we have *not* factored this acquisition in our forecasts, valuation or any other assumptions in this note.

Figure 1: Split of and Trends in ARB Holdings’ Product Range & Segments



Sources: Various ARB Holdings’ presentations, Blue Gem Research workings

## Electrical Division segment

**Table 1: Electrical Division – Key Revenue History and Forecasts**

Key Forecasts (R m)	H1:13A	FY 13A	H1:14A	FY 14A	FY 15A	FY 16A	H1:17A	FY 17A	H1:18A	FY 18E	FY 19E
Revenue	829	1679	985	1876	1741	2006	1018	1996	1107	2176	2459
Change in Revenue	19%	16%	19%	12%	-7%	15%	2%	0%	9%	9%	13%

Sources: Bloomberg, Blue Gem Research and ARB Holdings

- The Group's Electrical Division's revenue surprised us on the upside as it rose +9% to R1.1bn (H1:17 – +2% y/y; R1bn), which is mostly driven by a material uplift in Q2:18E. This latter point combined with the improving sentiment in South Africa post-ANC NEC indicates likely good momentum to be carried into the full year FY 18E numbers for this segment.
- We have lifted our forecast FY 18E revenue from R2.1bn to R2.2bn or from +6% y/y to +9% y/y.
- The Group continued to slowly grow its store footprints while it began development of the large Lord's View central store in Midrand, Johannesburg. Lord's View should be completed during early FY 19E and should allow for both efficiencies to be realized in the Groups' Gauteng footprint and the opening up of capacity constraints in satellite stores in this province.
- Eskom remains a risk both directly from distribution spend and indirectly from its effect on the broader South African economy. While the former was true during this period, we would argue that recent political developments in South Africa actually count in Eskom's longer-term favour. Thus, any improvement in this situation is likely to make ARB Holdings a beneficiary.
- The Electrical Division's primary business model is as a supplier-agnostic wholesaler and, thus, although the changes in ownership and route-to-market by Aberdare have a short-term risk to the Group, the Group has merely shifted supply to Aberdare's competitors. In the longer-term, we believe that Aberdare's attempt to go direct in the domestic market is unsustainable and that market dynamics will force it to return to normal supply to wholesalers.
- As noted earlier in this note, the Group acquired a 60%-stake in Craigcor Distribution. From H2:18E, the business will be consolidated into the Electrical segment:
  - The maximum purchase price is R30m, of which the first tranche has been paid in cash. The full price will be based on average profits across FY 16, 17 and 18 years on a 6.5x multiple.
  - The remaining 40% remains held by the founding family, thus aligning operational management's interest with ARB's.
  - Craigcor has the distribution right for Rockwell Automation (2-year contract with 1 year rolling; held for many years), amongst other product ranges for process automation.
  - There are easy synergies in support the business's route-to-market via ARB's existing store footprint while market development also offers upside.
  - Overall, we particularly like this addition to the Group, though we have not yet taken into account this businesses numbers for purposes of our forecasts (the business has estimated revenues of c.R100m per annum).
- There remains a contingent liability in this segment relating to ARB Electrical Wholesaler receiving a summons as a third defendant in a matter relating to a major construction company. Management continues to believe that there is no reasonable justification for this claim.
- **Note:** We have assumed a flat Rand Copper Price (RCP) in our forecasts, valuations and related workings. While the RCP has a bearing on the Group's margins, the good working capital management and the Groups falling exposure to cabling product has steadily diminished this risk.

## Lighting segment

**Table 2: Lighting – Key Revenue History and Forecasts**

Key Forecasts (R m)	H1:13A*	FY13A*	H1:14A	FY14A	FY15A	FY16A	H1:17A	FY17A	H1:18A	FY18E	FY19E
Revenue	140	281	174	351	425	507	271	511	254	490	525
Change in Revenue	>100%*	135%*	24%	25%	21%	19%	-47%	1%	-6%	-4%	7%

Sources: Bloomberg, Blue Gem Research and ARB Holdings

\* Eurolux was acquired in January 2012

- The Group's Lighting segment (Eurolux) disappointed with a -6% y/y slip in revenue for H1:18A (H1:17 - +6% y/y) as both the destocking of consumer businesses and the lightbulb replacement cycle extending ate into volumes.
- Furthermore, the under-utilisation of a new prepack-and-cut-wire plant negatively impacted on the bottom line in this segment, but should reverse in H2:18E as this asset comes online.
- This business's Euro Nouveau (high-end products) is now at break-even and the Group keeps driving product line expansion and customer penetration across South Africa.
- We have softened our expected revenues in this segment through the remainder of FY 18E and FY 19E, but see the long-term prospects as remaining robust.
- **Note:** The management of Eurolux own 40% of Eurolux's equity. They have a put option with these shares against ARB Holdings. The option is currently exercisable. The purchase price will be based on Eurolux's annual average profits of the last 36 months, at 60% of the Price Earnings (PE) multiple of ARB Holdings, based on the 120 day VWAP, with a cap of 7,5 times and a floor of 4 times (currently, this would be approximately 4.6x PE; it was previously 6.0x at the end of FY 17). This is currently disclosed in ARB Holding's current liability section at a value of R77m (FY 17: R91m). Given the quality of the underlying business and the multiple the Group would be acquiring it at, we would view the exercise of the put option as a positive for ARB Holdings and it would likely be earnings enhancing. We have assumed that the put option, though, is not exercised for the purposes of our forecasts and valuations of the Group.

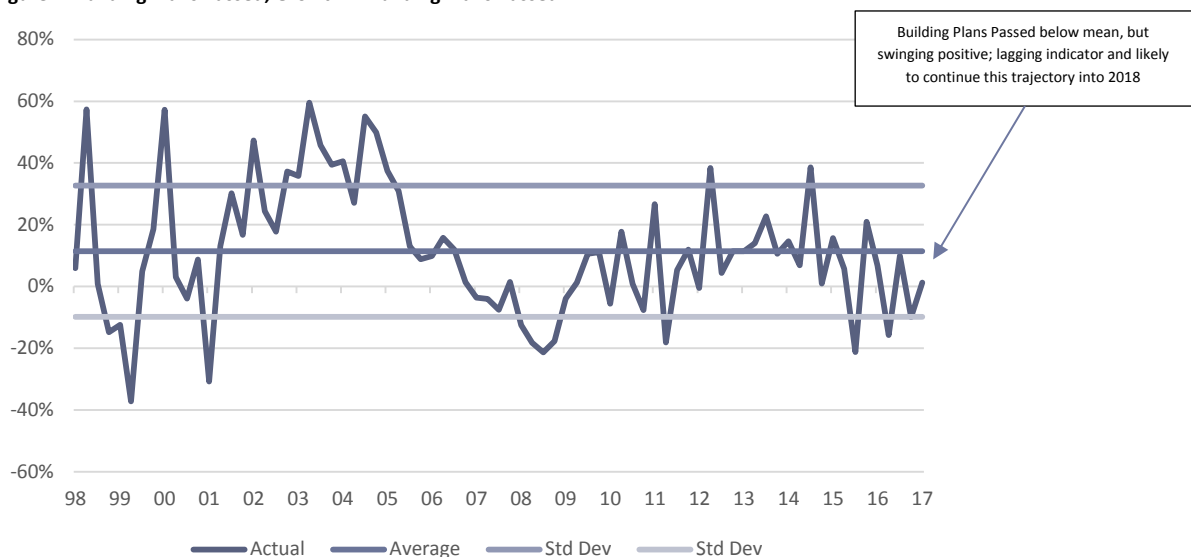
## Group services segment

- **Strategic acquisitions:** Management continues to reiterate their acquisitive intentions. We have built this report and our view of ARB Holdings without attempting to factor in any future acquisition(s). Thus, we note that this implies upside optionality in our valuation and forecasts regarding the Group. I.e. A conclusion of a value-enhancing acquisition can potentially make our valuation and forecast inaccurate.
- **Property:** The property segment operated in line with expectations and was valued at R241m (FY 17: R188m) as normal capex combined with the Group beginning the Lord's View development. The latter point is the reason that we expect above-normal capex in the H2:18E/FY 19E period as it moves the Gauteng premises to this larger commercial space in Midrand.

## Construction, Building Materials & Electrical Wholesaling Industries

- South Africa's economy struggled during 2017, and investor and business confidence troughed as political risk rose to a crescendo ahead of the ANC NEC during December.
- Following a positive event outcome, South Africa's sentiment and, likely, its economic activity levels have improved (and continue to improve).
- Figure 2 shows the building plans and rate of change of this leading indicator during 2017, but statistics have not yet come out to indicate a recovery in 2018. That said, we remain optimistic of this going forward, though note that the large, more material "big ticket" infrastructure projects should only come through between a year to two years from now (these are slower development cycles than private sector).

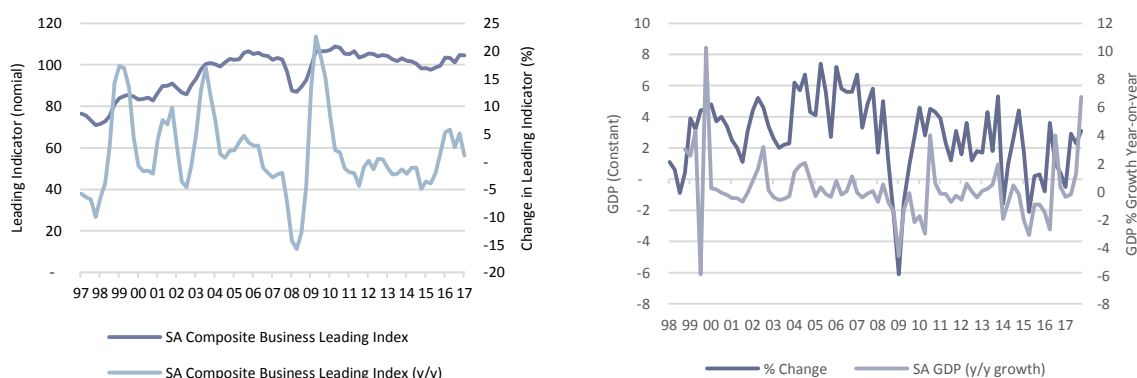
**Figure 2: Building Plans Passed, Growth in Building Plans Passed**



Sources: Bloomberg, Blue Gem Research workings

- Figure 3, also has limited forward relevance given its historical nature and only serves to show how tough 2017 was for South African businesses.

**Figure 3: South African GDP and South African Leading Indicator**



Sources: Economist Consensus (Bloomberg), Bloomberg, Blue Gem Research workings

## Forecasts

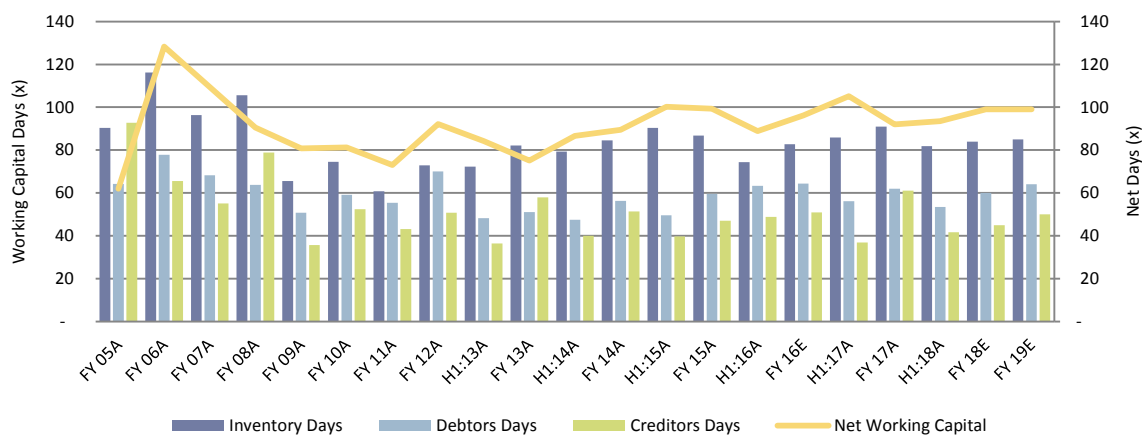
### Revenues and profitability

- Refer to the individual segments for more detailed forecasts.
- In summary, though, we do not see any lowering or diminishing of ARB Holdings’ sales or profitability for the forecast period.
- In fact, given recent positive political developments in South Africa, improving domestic sentiment and the recent Craigcor acquisition, we believe that there is upside risk to our forecasts.

### Liquidity, solvency and assets

- The Group continues to manage its working capital superbly and key ratios and days remains relatively stable during the period (Figure 4).
- We do not expect this to change in the near-future.

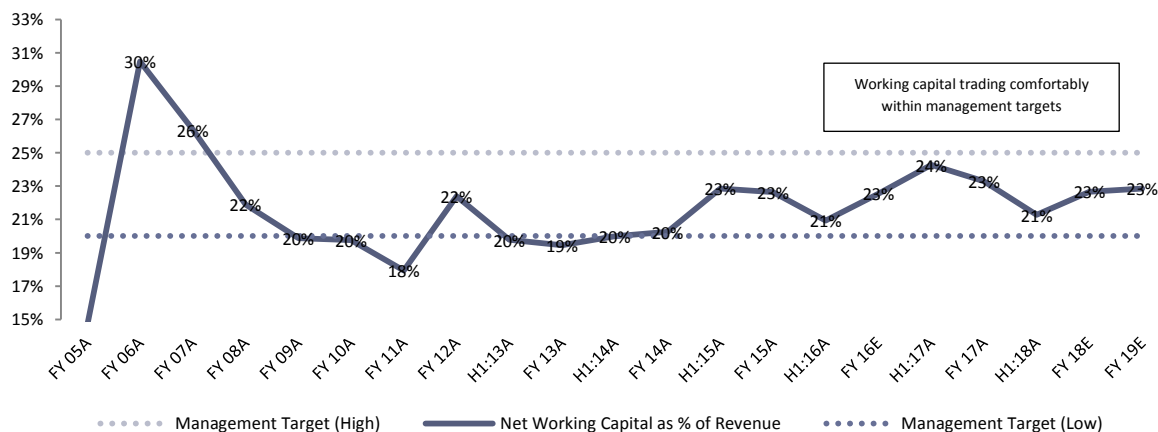
**Figure 4: Working Capital History of ARB Holdings**



Sources: ARB Holdings, Blue Gem Research workings

- Working capital has remained relatively stable.
- Perhaps more importantly, the Group’s working capital remains within set management targets (Figure 5) of 20% to 25% of revenue.
- As noted above, we do not expect any major change in this relationship.

**Figure 5: Net Working Capital as Percentage of Revenue (Management Target: Between 20% and 25% of turnover)**



Sources: ARB Holdings, Blue Gem Research workings

## Valuation and 12m TP

### Valuation Models

- A key consideration in all of our valuation models of ARB Holdings is that we do *not* value the property portfolio on the Group’s balance sheet separately (it is worth c.R241m at the time of writing this). This methodology remains unchanged from our [Initiation of Coverage](#).

### Discounted Free Cash Flow (DCF) Model

The basis of our DCF model (Table 3) remains unchanged, except for the following updates:

- Cost of Equity (CoE) of 17.3% (previously: 17.8%) based off a “Rule of Thumb” beta of 1.5x (unchanged) and an Equity Risk Premium of 5.5% (unchanged).
- Despite 10-year Government bond yields trading below 9.0% in South Africa (currently nearer to 8.0%), we have pegged out risk-free rate at 9.0% (previously: 9.5%).

- Growth rates of the following:
  - FY 18E and FY 19E: per our forecasts in this report,
  - FY 20E to FY 21E: 15% y/y (10% real and 5% inflation),
  - FY 22E to FY 26E: 20% y/y (15% real and 5% inflation), and
  - FY 27E/Terminal Year: 10% y/y (5% real and 5% inflation).
- Finally, we take out an effective estimate of the minority interest of c.14% (FY 17: 17%) from the Group.

**Table 3: DCF Model – ARB Holdings**

	FY 18E	FY 19E	FY 20E	FY 21E	FY 22E	FY 23E	FY 24E	FY 25E	FY 26E	Terminal Year
EBITDA	246	276	317	364	437	525	630	756	907	998
Less: Tax	-70	-78	-90	-103	-124	-149	-178	-214	-257	-283
Less: Working Capital	-20	-23	-26	-30	-36	-43	-52	-62	-74	-82
Less: Capex	-173	-33	-38	-43	-52	-63	-75	-90	-108	-59
Free Cash Flow (FCF)	-17	142	163	188	225	270	325	389	467	574
Discounted FCF	-	112	110	108	110	113	115	118	121	1033
NPV (Enterprise Value)										R1 890m
Add: Net Cash										227
Fair Value, inc. Minorities (R m)										R2 117m
<b>Fair Value, ex. Minorities (R m)</b>										<b>R1 826m</b>
<b>Fair Value of ARB shares (cps)</b>										<b>777cps</b>
Implied Price Earnings (x)										10.9x
Discount to Fair Value (%)										44%
<b>12m TP (cps)</b>										<b>911c[s]</b>
Exit Price Earnings (x)										14.5x
Implied Return (%)										69%

Sources: ARB Holdings, Bloomberg, Iress, Blue Gem Research workings and assumptions

- We arrive at a fair value of 777cps (previously: 687cps) on an implied Price Earnings (PE) of 10.9x.
- Rolling this fair value forward at our CoE implies a 12m TP of 911cps (previous 12m TP: 809cps) on an Exit PE of 14.5x.
- Note our previously stated acquisitive upside to this valuation.

### Dividend Discount (DD) Model

- Other than those indicated in the DCF model above, our DD model remains unchanged from FY 17 (Table 4).
- At worst, our DD model indicates that the stock is fairly valued.

**Table 4: DD Model – ARB Holdings**

	FY 16A	FY 17A	FY 18E	FY 19E	FY 20E	FY 21E	FY 22E	FY 23E	FY 24E	FY 25E	Terminal Year
HEPS (cps)	59.7	61.9	62.7	67.1	73.8	81.2	93.3	107.3	123.4	142.0	149.1
Dividend Cover (x)	1.8	1.8	1.8	1.8	1.8	1.5	1.5	1.5	1.5	1.5	1.0
DPS (cps)	33.1	34.3	34.7	37.2	40.9	54.1	62.2	71.6	82.3	94.6	149.1
DWT (20%)	-5.0	-6.9	-6.9	-7.4	-8.2	-10.8	-12.4	-14.3	-16.5	-18.9	-29.8
Net DPS (cps)	28cps	35cps	28cps	30cps	33cps	43cps	50cps	57cps	66cps	76cps	119cps
Discount Factor			0.92	0.79	0.67	0.57	0.49	0.42	0.36	0.30	0.22
Discounts DPS (cps)			25.7	23.4	22.0	24.8	24.3	23.9	23.4	23.0	362.7cps
<b>Fair Value (cps)</b>											<b>553cps</b>
<b>Implied PE Ratio (x)</b>											<b>8.9x</b>

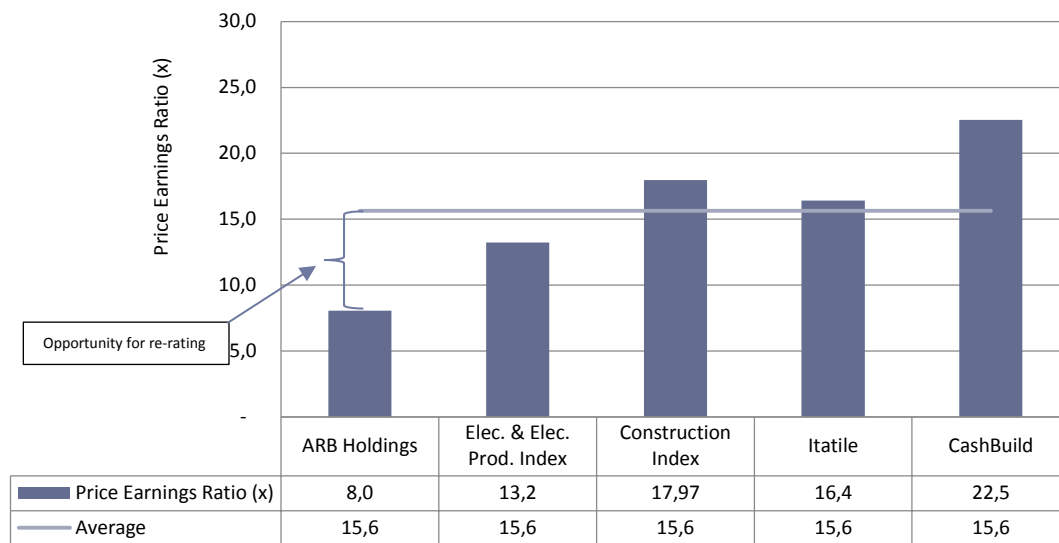
Sources: ARB Holdings, Bloomberg, Iress, Blue Gem Research workings and assumptions

### Price Earnings (PE) Model

- ARB's current 12m lagging PE of 8.0x compares favourably to the FTSE/JSE AllShare Index PE of 19.3x.
- Although ARB Holdings is listed in the electrical sector, we believe that the markets it supplies are linked to both material and construction-related industries.
- Thus, once we consider ARH's PE against comparatives in these markets (Figure 6), the share appears relatively cheap versus comparatives with a c.95% (FY 17: 40%) upwards re-rating potential.
- Despite direct and indirect exposure to Eskom and being an illiquid share, ARB Holdings is profitable, cash generative and growing, thus we see little reason for this massive gap in its relative rating in the market and believe this adds to our DCF's view that ARH is deeply undervalued.



**Figure 6: ARB Holdings Price Earnings (PE) Versus Peers & Indices**



Sources: Iress, Various Company Reports and Blue Gem Research workings

### Valuation, 12m TP and Implied Return

- We reiterate our preferred valuation methodology as the DCF, therefore implying that our fair value for ARH is 777cps (previously: 687cps) on an implied Price Earnings (PE) of 10.9x.
  - This fair value implies that ARH shares are c.44% undervalued at current levels.
  - Our fair value implied PE does not appear unreasonable against the various comparatives in the market (Figure 6).
  - In fact, this implied PE appears cheap versus many comparatives and could imply upside risk to our valuation assumptions.
- Rolling our fair value forward at our CoE we arrive at a 12m TP of 911cps (previous 12m TP: 809cps).
  - A 12m TP of 911cps places the share on a fair Exit PE of 14.5x.
  - Our 12m TP also implies a return of c.69%.

### Key Risks to Our Valuation

- The major macroeconomic variables in South Africa (specifically, GDP growth, construction and building sectors, labour environment, Eskom- and municipal-related spend, sovereign risk, amongst other variables),
- The exercise of the Eurolux put option against ARB Holdings,
- The timing and successful implementation of the Group’s organic product, store and market expansion drive, and
- The timing, quantum and success of the Group’s acquisitive activity (recently, Craigcor Distribution and its performance).

**Disclaimer**

**Confused by this report? View our [methodology](#), [FAQ](#) and [this disclaimer](#).**

*\* Market prices in this report predominantly set to intra-day price on during 2 March 2018 (540cps).*

**Potentially a Commissioned Report**

With reference to the disclosure contained within the ‘Disclosures\*’ section below, it is possible that Blue Gem Research (Pty) Ltd has agreed with ARB Holdings Ltd (hereafter referred to as ‘the Company’) for the inclusion of the Company in its coverage universe for a certain time period. Part of this agreement includes payment to Blue Gem Research (Pty) Ltd by the Company and, as such, Blue Gem Research (Pty) Ltd, any employees, contractors and/or analysts who worked on this report cannot be considered independent in any way. Thus, this is a commissioned report and cannot be considered financial advice, investment advice or any such similar material.

In the event that this is not a ‘Commissioned Report’, then all the usual disclaimers concerning independent research are applicable per industry norms.

**Ownership of the Report**

This report is the property of Blue Gem Research (Pty) Ltd, but may be freely distributed so long as in the act of such a distribution no additions to, deletions from and modifications to this report are made. Furthermore, no party without the express permission of Blue Gem Research (Pty) Ltd may sell this report or make any direct form of compensation from the redistribution thereof.

**Frequency of Next Update**

The frequency of new and/or updated report is left at the discretion of Blue Gem Research (Pty) Ltd. No guaranty or promise is made for any level of frequency or timeliness concerning an update or related report with regards to this report.

**Disclosures\***

- A. The analyst is an officer, board member, or director of Blue Gem Research (Pty) Ltd.
- B. The Company is a client of Blue Gem Research (Pty) Ltd (i.e. this is a Commissioned Report) and Blue Gem Research (Pty) Ltd has received money in exchange for the production of this report.
- C. Analyst holds long or short personal positions in a class of common equity securities of this company either directly or indirectly.

ARB Holdings Ltd	B
------------------	---

**Financial Numbers, Forecasts, Valuations and other Assumptions**

While every effort has been made by Blue Gem Research (Pty) Ltd to ensure the accuracy and integrity of the financial numbers, ratios, forecast, valuations and other quantitative and qualitative data in this report, Blue Gem Research (Pty) Ltd does not warrant or guaranty its accuracy. The reader relies on this data and information from this report at his/her own risk. Furthermore, in the case of forecasts and valuations, Blue Gem Research (Pty) Ltd wholly and completely cannot be held liable for any damage or loss caused by any individual, collection of individuals or business or any other party by said party acting or not acting based on the forecasts and valuation(s) included in this report. By their very nature, forecasts and valuations may not be accurate and, indeed, may be wholly and completely wrong.

**General Opinion, Not Specific Advice**

This report is prepared on a *per share* basis. Blue Gem Research (Pty) Ltd is, therefore, giving an opinion (and not financial advice) on a *per share* basis, which may or may not be applicable to the reader (or any person, entity or related person or entity). Blue Gem Research (Pty) Ltd lacks complete knowledge of any reader’s (or any person, entity or related person or entity) portfolios and/or individual circumstances and, therefore, any of Blue Gem Research (Pty) Ltd’s opinion(s) or implied opinion(s) are general in nature and not a specific recommendation or advice, nor can they be construed to be specific in nature. Hence, in no way is this report financial advice.

**Legal Entities**

To South African Residents: Blue Gem Research (Pty) Ltd is not an Authorised Financial Services Provider. This report is not financial advice, investment advice or any such similar material. **This report constitutes “marketing information”.** Blue Gem Research (Pty) Ltd and/or its employees and/or officers have no knowledge of any reader’s or readers’ financial position(s) and, hence, this cannot in any way be construed as direct or indirect advice leading any person or persons to act thereon. Any decision made or not made which can in any way be linked to this report is solely the responsibility of the party or parties making such a decision. I.e. Blue Gem Research (Pty) Ltd cannot be held liable for any result based on any decision that can be directly or indirectly linked to this report.

**General**

For the purposes of this report Blue Gem Research (Pty) Ltd refers to all employees of Blue Gem Research (Pty) Ltd. This research report is based on information from sources that Blue Gem Research (Pty) Ltd believes to be reliable. Whilst every care has been taken in preparing this document, no research analyst or employee or director of Blue Gem Research (Pty) Ltd gives any representation, warranty or undertaking and accepts no responsibility or liability as to the accuracy or completeness of the information set out in this document (except with respect to any disclosures relative to members of Blue Gem Research (Pty) Ltd and the research analyst/s involvement with any issuer referred to above. All views, opinions and estimates contained in this document may be changed after publication at any time without notice. Past performance is not indicative of future results. The investments and strategies discussed here may not be suitable for all investors or any particular class of investors; if you have any doubts you should consult your investment advisor. The investments discussed may fluctuate in price or value. Changes in rates of exchange may have an adverse effect on the value of investments. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Employees of Blue Gem Research (Pty) Ltd and/or their respective directors’ may own the investments of any of the issuers discussed herein and may sell them to or buy them from clients on a principal basis. This report is intended solely for clients and prospective clients of Blue Gem Research (Pty) Ltd and is not intended for, and may not be relied on by persons to whom this report may not be provided to by law. This report is for information purposes only. By accepting this document, you agree to be bound by the foregoing limitations and release Blue Gem Research (Pty) Ltd from any potential legal or otherwise liability.

**NOT FOR DISTRIBUTION OUTSIDE OF SOUTH AFRICA OR ANY TERRITORY WHERE THIS MATERIAL MAY BE CONSIDERED ILLEGAL.**