Results Note
5 March 2020

ARB Holdings Ltd
H1:20 Results – Lean & Efficient

Share Code: ARH – Market Cap: R0.9bn – PE: 5.9x – DY: 6.3%

12m Target Price	**659cps**
Share Price	**405cps**
Implied Return	**63%**

Industrials | South Africa

H1:20 – Great cost-control despite headwinds

- While ARB missed out topline expectations, management's extraction of efficiencies across the Group saw a resilient profit performance.
- The disappointments were all in sales, as Eskom/contractor volumes remained weak in the Electrical Division and retailer/consumer markets stagnated.
- The victories were all won in costs as the Radiant acquisition begins to bed-down, an underperforming Electrical store was closed and the Lord's View DC began operations.
- Slight "pre-Chinese New Year" overstocking across the Group negatively impacted on cash flows but should serve the Group well given the current Covid-19 (i.e. "Coronavirus") disruption to global supply chains and the coming likely stock shortages across global and domestic markets.

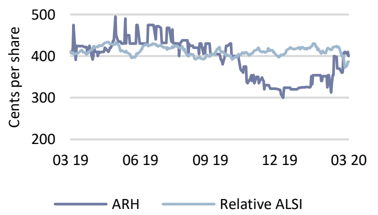
Our Thoughts: H2 to remain tough, but long-term positive

- The Group remains ungeared, has positive cost-savings that should annualize nicely going forward and is well-positioned to weather the current macro-headwinds and capture any growth that may appear going forward.
- Unfortunately, H2 in South Africa and with growing global risks is likely to remain a tight trading environment and one with a lot of forecast risk (either upside or downside).

Forecast, Valuation & Implied Return: Still under rated

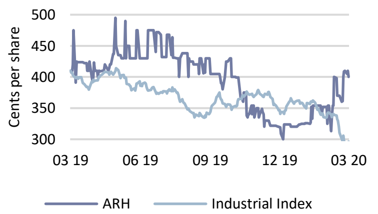
- Our fair value for ARH is 562cps (previously: 576cps) on an implied Price Earnings (PE) of 8.3x, indicating that the stock is c.39% undervalued at its current share price.
- Rolling our fair value forward at our CoE, we arrive at a 12m TP of 659cps (previous 12m TP: 670cps) on an Exit PE of 13.2x.
- Key risks to the Group are unchanged from our Initiation of Coverage.

Share Price against the ALSI



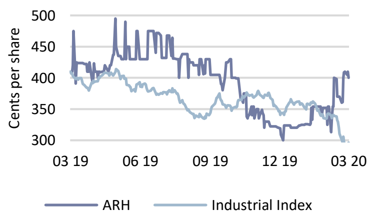
Sources: Bloomberg, Blue Gem Research

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)	H1:18A	FY 18A	YoY %	H1:19A	FY 19A	YoY %	H1:20A	FY 20E	YoY %	FY 21E	YoY %
Revenue	1342	2590	*4%*	1357	2706	*4%*	1418	2780	*3%*	2893	4%
EBITDA	115	218	*-5%*	99	173	*-21%*	108	218	*26%*	224	3%
HEPS (cps)	**37.6cps**	**71.7cps**	***16%***	**23.2cps**	**58.2cps**	***-19%***	**32.6cps**	**54.1cps**	***-7%***	**57.1cps**	**6%**
Return on Equity (%)	*20.3%*	*18.2%*	-	*11.7%*	*13.8%*	-	*6.3%*	*12.1%*	-	*11.8%*	-
Price Earnings Ratio (x)	*5.4x*	*5.6x*	-	*8.7x*	*7.0x*	-	*12.4x*	*7.5x*	-	*7.1x*	-
DPS (cps)*	-	35.0cps	*0%*	-	25.0cps	*-29%*	-	21.6cps	*-13%*	22.8cps	6%
Dividend Yield (%)	*0.0%*	*8.6%*	-	*0.0%*	*6.2%*	-	*0.0%*	*5.3%*	-	*5.6%*	-

*Sources: ARB Holdings, Bloomberg, Iress, Blue Gem Research; *FY 18's distribution includes a special dividend of 10cps*

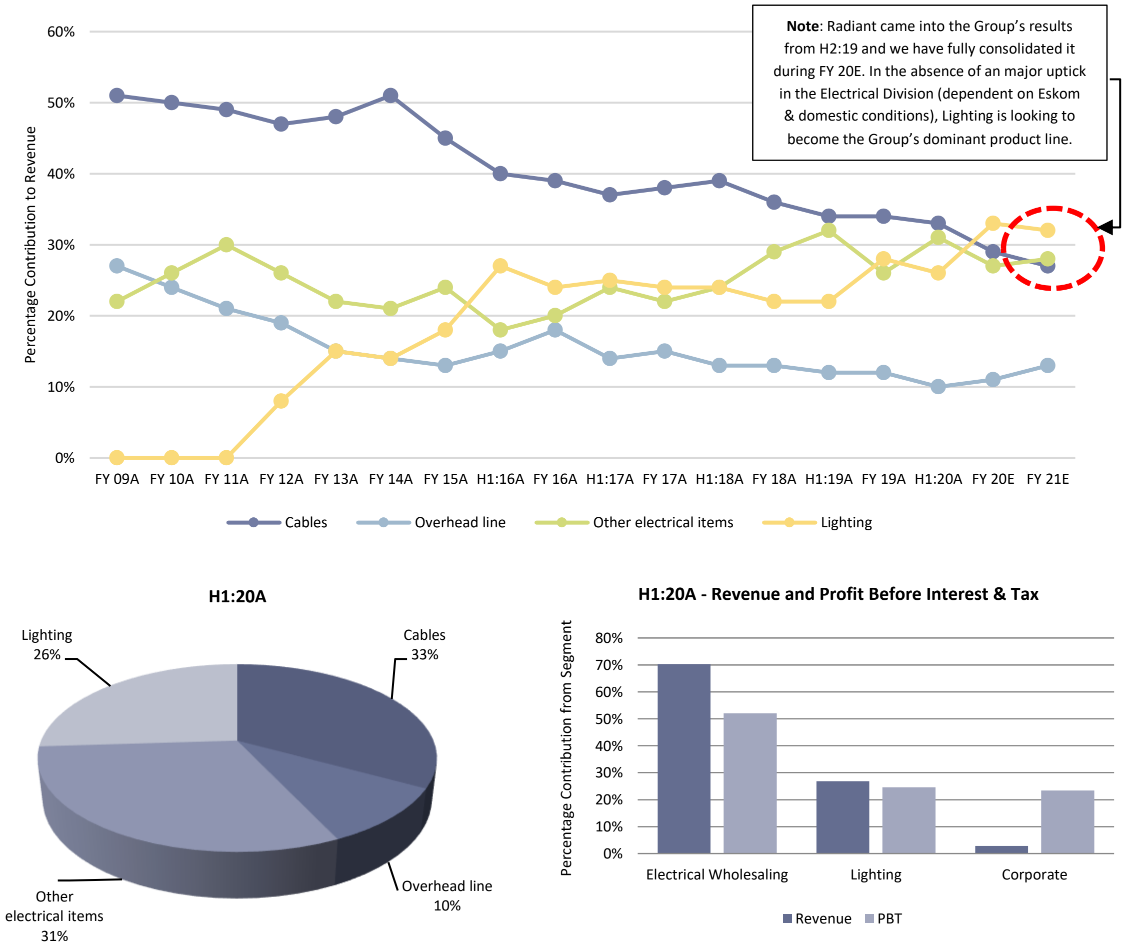
Key Forecast (R m)	H1:18A	FY 18A	YoY %	H1:19A	FY 19A	YoY %	H1:20A	FY 20E	YoY %	FY 21E	YoY %
Revenue	**1342**	**2590**	***4%***	**1357**	**2706**	***4%***	**1418**	**2780**	***3%***	**2893**	***4%***
Electrical Wholesaling	1107	2120	*6%*	1088	2097	*-1%*	1039	2007	*-4%*	2088	*4%*
Lighting	254	502	*-2%*	288	649	*29%*	396	800	*23%*	834	*4%*
Gross Profit	**313**	**615**	***3%***	**319**	**651**	***6%***	**343**	**690**	***6%***	**717**	***4%***
Gross Profit Margin (%)	*23.3%*	*23.8%*	-	*23.5%*	*24.0%*	-	*24.2%*	*24.8%*	-	*24.8%*	-
Operating expenses	-209	-417	*8%*	-228	-497	*19%*	-253	-500	*1%*	-521	*4%*
EBITDA	**115**	**218**	***-5%***	**99**	**173**	***-21%***	**108**	**218**	***26%***	**224**	***3%***
EBITDA Margin (%)	*8.5%*	*8.4%*	-	*7.3%*	*6.4%*	-	*7.6%*	*7.9%*	-	*7.8%*	-
Operating Profit/(Loss) Before Interest	121	230	*7%*	81	177	*-23%*	98	202	*14%*	202	*0%*
Net interest received/(paid)	14	25	*13%*	13	17	*-29%*	3	-5	*-129%*	4	*-175%*
Net Profit (Parents)	**89**	**168**	***15%***	**55**	**135**	***-20%***	**63**	**127**	***-6%***	**134**	***6%***
Weighted Ave. Number of Shares (millions)	235.0	235.0	*0%*	235.0	235.0	*0%*	235.0	235.0	*0%*	235.0	*0%*
EPS (cps)	**37.7**	**71.7**	*15%*	**23.3**	**57.4**	*-20%*	**27.0**	**54.1**	*-6%*	**57.1**	*6%*
HEPS (cps)	**37.6**	**71.7**	*16%*	**23.2**	**58.2**	*-19%*	**32.6**	**54.1**	*-7%*	**57.1**	*6%*
Gross Ordinary DPS (cps)*	-	35	*0%*	-	25	*-29%*	-	22	*-13%*	23	*6%*
Dividend Yield (%)	*0.0%*	*8.6%*	-	*0.0%*	*6.2%*	-	*0.0%*	*5.3%*	-	*5.6%*	-
Dividend Cover (x)	-	2.0	*16%*	-	2.3	*14%*	-	2.5	*7%*	2.5	*0%*
Property, Plant & Equipment	290	331	*40%*	388	413	*25%*	435	524	*27%*	534	*2%*
Intangible Assets	78	96	*23%*	96	76	*-20%*	76	76	*0%*	76	*0%*
Current Assets	1081	1162	*-3%*	992	1201	*3%*	1079	1298	*8%*	1401	*8%*
Net Cash	227	259	*-15%*	148	181	*-30%*	85	297	*64%*	372	*25%*
Cash	227	259	*-15%*	148	181	*-30%*	85	297	*64%*	372	*25%*
Overdraft	-	-	-	-	-	-	-	-	-	-	-
Interest-bearing Liabilities	-	-	-	-	-	-	-	-	-	-	-
Shareholder's Equity (Parent)	905	967	*8%*	940	1022	*6%*	1041	1099	*7%*	1179	*7%*
Non-current Liabilities	42	76	*85%*	78	64	*-16%*	136	231	*264%*	227	*-2%*
Current Liabilities	362	403	*-2%*	335	478	*19%*	355	491	*3%*	508	*4%*
NAV per share (cps)	385.2	411.7	*8%*	399.9	435.1	*6%*	443.1	467.5	*7%*	501.8	*7%*
TNAV per share (cps)	357.5	374.5	*6%*	363.3	408.5	*9%*	417.4	435.0	*6%*	469.3	*8%*
Cash Generated by Operations	120	225	*6%*	78	226	*0%*	16	295	*30%*	213	*-28%*
Cash Conversion Ratio (%)	105%	103%	-	79%	130%	-	15%	135%	-	95%	-
Net Cash Flow from Financing Activities	-59	-115	*735%*	-64	-204	*78%*	-30	-134	*-35%*	-33	*-76%*
Net Increase / (Decrease) in Cash	-	0	*0%*	-	39	*>100%*	-	57	*46%*	-9	*-116%*
Return on Equity (%)	***20.3%***	***18.2%***	-	***11.7%***	***13.8%***	-	***6.3%***	***12.1%***	-	***11.8%***	-
Return on Capital Employed (%)	***15.4%***	***13.8%***	-	***10.1%***	***9.9%***	-	***5.4%***	***10.0%***	-	***9.4%***	-
Return on Assets (%)	*13.8%*	*12.0%*	-	*8.6%*	*8.6%*	-	*4.2%*	*7.2%*	-	*7.1%*	-
Price Earnings Ratio (x)	*5.4x*	*5.6x*	-	*8.7x*	*7.0x*	-	*12.4x*	*7.5x*	-	*7.1x*	-
Price-to-Book (x)	*1.1x*	*1.0x*	-	*1.0x*	*0.9x*	-	*0.9x*	*0.9x*	-	*0.8x*	-
Price-to-Tangible-Book (x)	*1.1x*	*1.1x*	-	*1.1x*	*1.0x*	-	*1.0x*	*0.9x*	-	*0.9x*	-
Current Ratio	*3.0x*	*2.9x*	-	*3.0x*	*2.5x*	-	*3.0x*	*2.6x*	-	*2.8x*	-
Quick Ratio	*1.7x*	*1.6x*	-	*1.4x*	*1.2x*	-	*1.3x*	*1.5x*	-	*1.6x*	-

*Sources: ARB Holdings, Bloomberg, Iress, Blue Gem Research workings, assumptions, and forecasts; * Only final dividends declared; ^ Based off Blue Gem Research workings and a range of assumptions to attempt to control for IFRS non-cash items, fair value adjustments and restructuring and legal costs incurred.*

H1:20 Results Highlights

- ARB Holdings put out remarkable H1:20 results showing HEPS rising +41% y/y. Importantly, once IFRS adjustments, changes and once-offs are excluded, the earnings figure still appears robust, implying the resilience of the Group's core operations is intact during a continued tough trading period.
- This is even more impressive when viewed against a small top-line miss as the challenging domestic environment dragged on volumes and Group revenue only rose +4.5% y/y (mostly driven by Radiant's full inclusion and bolstered by Corporate, but below our full-year expectation of +8% y/y).
- Management extracted the alpha from the Group's cost-base as they drive efficiencies both within and across the businesses. One underperforming ARB Direct store was closed, the Lord's View DC came online (its efficiency gains are only expected to come fully into future periods), payroll and employee efficiency was carefully managed and cost-savings from Radiant began to trickle in.
- The disappointments were all in sales, as Eskom/contractor volumes remained weak in the Electrical Division and retailer/consumer markets stagnated. Slight "pre-Chinese New Year" overstocking across the Group negatively impacted on cash flows but should serve the Group well given the current Covid-19 (i.e. "Coronavirus") disruption to global supply chains and the coming likely stock shortages across global and domestic markets.
- The Group remains ungeared, has positive cost-savings that should annualize nicely going forward and is well-positioned to weather the current macro-headwinds and capture any growth that may appear going forward.

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)	H1:18A	FY 18A	H1:19A	FY 19A	H1:20A	FY 20E	FY 21E
Revenue	1107	2120	1088	2097	1039	2007	2088
Change in Revenue	*9%*	*6%*	*-2%*	*-1%*	*-5%*	*-4%*	*4%*

Sources: Bloomberg, Blue Gem Research and ARB Holdings

- Revenue in the Electrical Division undershot our expectations, slipping -4.5% y/y as major infrastructure and Eskom-related spend remained weak. Adding to this pressure, loadshedding's negative impact on manufacturing (several cable manufacturing went under during the period) combining to hurt cable and overhead lines volumes on the ground.
- A key focus in this period was on establishing and integrating Lord's View DC. The benefits from this DC should come through in future periods and take the shape of key inventory efficiencies.
- The cost-savings and efficiency drive noted previously saw this segment report a +13.5% y/y rise in operating profits despite the weak revenue figures.
- We have lowered our full FY 20E revenue expectations but do expect this to pick up into FY 21E. Against these topline adjustments, we have further taken some cost efficiencies into account and expect Lord's View to start contributing from FY 21E. Thus, while our sales expectations may be conservative (there is upside risk here), we expect bottom-line profits to remain comfortable in this division.

Lighting Division segment

Table 2: Lighting – Key Revenue History and Forecasts

Key Forecasts (R m)	H1:18A	FY 18A	H1:19A	FY 19A	H1:20A	FY 20E	FY 21E
Revenue	254	502	288	649	396	800	834
Change in Revenue	*-6%*	*-2%*	*13%*	*29%*	*37%*	*23%*	*4%*

*Sources: Bloomberg, Blue Gem Research, South Ocean and ARB Holdings; * Radiant's effective date is 1 January 2019, thus we have consolidated fully into our forecasts for FY 20E onwards.*

- During H1:20, Radiant's consolidation into the Lighting Division saw revenues grow, but this remained below our expectation. The reality is, once Radiant is excluding, this segment's sales were slightly negative for the period as negative consumer and retailer sentiment weighed on it.
- That said, the key restructuring of this segment and bedding down of Radiant continues and is beginning to yield positive cost-saving and route-to-market gains.
- Anecdotally, speaking to stockists of some lighting ranges, they note the positives they are already starting to see in Radiant product/market share post-ARB takeover. Thus, we do expect positive returns from this segment's short- to medium-term prospects, though potentially dampened by the above noted negative trading environment.
- Particularly in this division, an overstocked situation grew from large pre-Chinese New Year orders landing amidst weaker-than-expected volumes. While this has negatively impacted working capital for the period, COVID-19's dramatic impact on global supply chains originating out of China (i.e. *most* of supply chains) will likely lead to product shortages domestically and, thus, this situation may actually prove to be prescient in the coming months/H2:20E.
- The major forecast changes are in the Lighting Division where we have slashed current year sales (excluding Radiant), but still expect the Radiant consolidation to lift sales +23% y/y in FY 20E. Particularly from H2:20E—but more noticeably in FY 21E—we expect cost-savings from consolidating properties to flow strongly and, while our sales here remain conservative, we do expect good bottom-line growth in profits across this Division.
- **Note**: The management of Eurolux owns 40% of Eurolux's equity (the acquiror of Radiant). They have a put option with these shares against ARB Holdings. The option is currently exercisable and, if it were exercised, we calculate that it would be accretive to the Group. This Put Option is fair valued through

the Group's profits each period. This creates IFRS fair value adjustments that go through the profits of the Group and we reverse for the purposes of normalizing earnings.

Group services segment

- **Strategic acquisitions**: Management is actively seeking acquisitions for the Group, but in discussion with us indicated that no likely near-term deals in the pipeline.
- **Property**: The property segment operated in line with expectations and was last valued at the end of FY 19 at R354m, though note the recent new-build of Lord's View DC and the Radiant Group's property portfolio is likely to be acquired for R88~100m.

Macro Analysis

- Domestically & globally there are some key variables playing out that we will list below. Given the volatility, geopolitical and viral risks, these risks have both down- and up-side risk to them and we believe that any macro analysis at this point has limited practical value:
- **Major domestic macro variables:**
    1. **Public sector finances:** Minister Mboweni published a constructive Budget last month that aimed to do two key things: (1) Lower the public sector spending deficit, specifically targeting the public sector payroll, & (2) Lower the tax burden on the middle- and low-income tax payers in South Africa. We believe that both of these are correct moves, but unknowns like the Unions and SOE bailouts make the *execution* of this Budget key.
    2. **Eskom:** Following from the strained public sector finances, Eskom remains a major bottleneck to growth and downside risk to the domestic economy. A new (credible) CEO and narrative for the unbundling of its operations all points to a recovery, though when and where (and even *if*) this happens remain unknowns.
    3. **The rest:** The above two inter-related domestic variables have severely constrained the domestic economy and, as we stand today, remain a challenge. The below global variables insert further uncertainty into this local equation.
- **Major global macro variables:**
    1. **COVID-19:** The rapid spread of the COVID-19 virus from China to increasing numbers of countries around the world remains a immediate and significant problem. Not just the loss of life or loss of production in economies and quarantine zones, but also the knock-on effect into supply chains (forwards and backwards) all indicate that this viral outbreak is creating macroeconomic downside this quarter and, depending on its spread and duration, may do so for a while. See a near real-time dashboard tracking this viral outbreak here: **LINK**.
    2. **US-Sino Relations:** While the Phase One Trade Deal has been signed, the US-Sino relations remain strained. Not just is a Phase Two Deal a variable, but other proxy wars may well flare up at any time and in unknown ways.
    3. **Brexit:** Given that one of South Africa's largest trading partners is the UK, how, when and what effect the long-awaited Brexit has may have a knock-on both globally and domestically.

Forecasts

Revenues and profitability

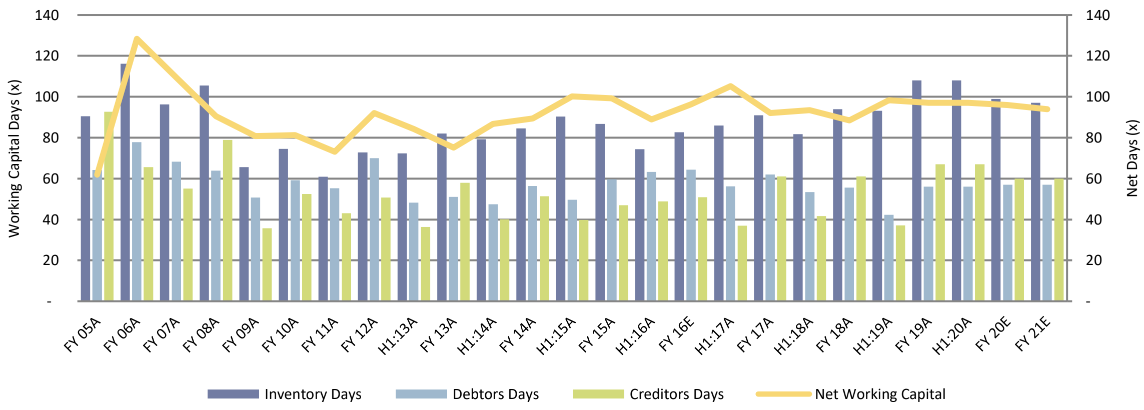
- In both Electrical and Lighting Divisions, we specifically highlight our sales conservativism. We believe that there is a chance that the domestic environment turns out better and top-line performance beats our expectations across the Group, thus we want to emphasis that there is upside risk to our forecasts.

- Refer to the individual segments for more detailed forecasts, particularly notes around cost-estimate changes too.

Liquidity, solvency and assets

- While noting the slight overstocking situation (though, there may also be *upside* to this!), the Group continues to manage its working capital superbly and key ratios and days remain relatively stable during the period (Figure 4).
- We expect working capital to come down during H2 as stock is wound down to more normal levels.

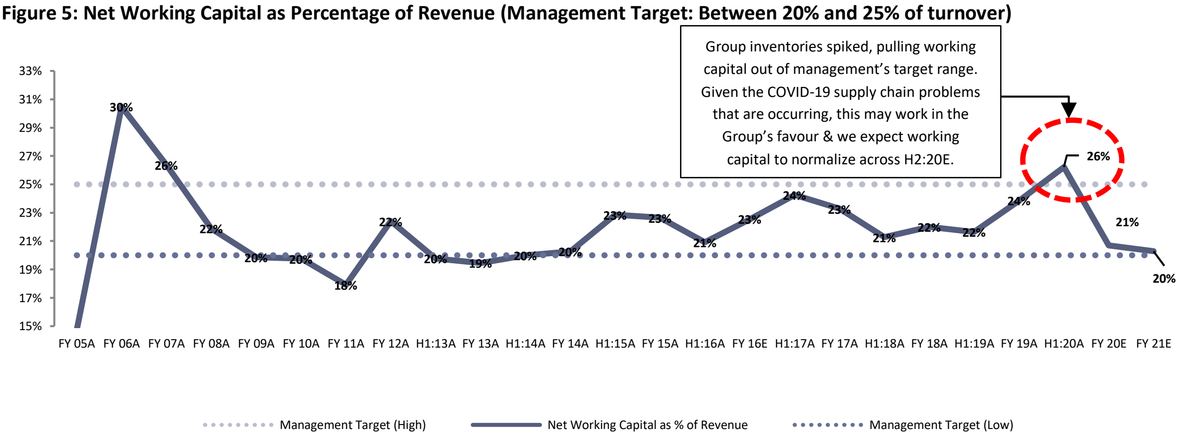
Figure 4: Working Capital History of ARB Holdings



Sources: ARB Holdings, Blue Gem Research workings

- The rise in working capital from overstocking has lifted working capital outside of management's target range (Figure 5), though—as noted previously—this may work in their favour in H2:20E.

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 our valuation of ARB Holdings is that we do *not* value the property portfolio on the Group's balance sheet separately (it is worth c.R354m 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: 16.4%) based off a "Rule of Thumb" beta of 1.5x (unchanged) and an Equity Risk Premium of 5.5% (unchanged). Note the rise in CoE has been driven by rising 10-year South African bond yields that have recently breached 9.0%.
- The 10-year South African Government bond yield is around 9.1% (previously: 8.1%).
- Growth rates of the following:
  - FY 20E & FY 21E: per our forecasts in this report,
  - FY 22E: 10% y/y (5% real and 5% inflation),
  - FY 23E to FY 26E: 13% y/y (7.5% real and 5% inflation ~ This is predicated by a slow recovery in Eskom leading to medium-term, much-needed uptick in related infrastructure spend), and
  - Terminal Year: 10% y/y (5% real and 5% inflation) – see note below.
- Finally, we take out an effective estimate of the minority interest of c.10% (previously: 12%) from the Group.

Table 3: DCF Model – ARB Holdings

	H1:20A	FY 20E	H2:20E	FY 21E	FY 22E	FY 23E	FY 24E	FY 25E	FY 26E	Terminal Year
EBITDA	114	224	111	224	247	278	312	351	395	489
Less: Tax	-28	-55	-27	-55	-60	-68	-76	-86	-97	-119
Less: Working Capital	-98	70	168	-11	-12	-14	-16	-18	-20	-25
Less: Capex	-30	-45	-15	-45	-49	-55	-62	-70	-79	-49
Free Cash Flow (FCF)	-42	195	237	113	125	140	158	178	200	296
Discounted FCF	-	-	219	89	84	80	77	74	71	625
NPV (Enterprise Value)										1388
Add: Net Cash										85
Fair Value, inc. Minorities (R m)										R1,473m
Fair Value, ex. Minorities (R m)										**R1,320m**
Fair Value of ARB shares (cps)										**562cps**
Implied Price Earnings (x)										*8.3x*
Discount to Fair Value (%)										*39%*
12m TP (cps)										**659cps**
Exit Price Earnings (x)										*13.2x*
Implied Return (%)										*63%*

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

- We arrive at a fair value of 562cps (previously: 576cps) on an implied Price Earnings (PE) of 8.3x. This implied PE compares favourably against the various comparatives in the market (Figure 6) and is at a slight discount to the Electrical & Electrical Products Index's PE of 10.2.
- Rolling this fair value forward at our CoE implies a 12m TP of 659cps (previous 12m TP: 670cps).
- Note our upside and downside risks to our forecasts (i.e. Radiant & South Africa's economic recovery) that filter through into this valuation.
- **Note:** The Terminal Year growth rate of 10% is made up of the following:
  - 5% inflation assumption, &
  - 1.5~2.0% population growth + 1.5~2.0% urbanisation growth + 1.0~1.5% technological/efficiency growth = c.5% real growth rate.
  - That said, South Africa's recent decade has seen below-mean real GDP growth and it is prudent to consider that long-term average nominal GDP growth may not materialize.
  - Thus, if we adjust downwards our assumed 5% y/y real growth rate to 2% y/y, we arrive at the following:
    - **DCF Fair value**: 510cps (i.e. c.9% lower than the above), &
    - **DCF 12m TP**: 598cps (i.e. c.9% lower than the above).
  - Hence, we highlight the Terminal Year and the sustainable growth rate of the domestic economy as a key risk and a notable variable in the valuation of ARB Holdings.

Dividend Discount (DD) Model

- Other than those indicated in the DCF model above and adjusting some of the payout ratios upwards, our DD model's assumptions remain unchanged (Table 4).
- Our DD model indicates a fair value of 368cps (previously: 386cps) on a 5.4x PE as DWT and the payout ratio create a valuation drag against the DCF model.
- As with the DCF, though, we note the risks (also to the upside) built into our assumptions, but specifically note the Group's propensity to pay special dividends as an upside to this model's valuation (we have *not* assumed any special dividends).

Table 4: DD Model – ARB Holdings

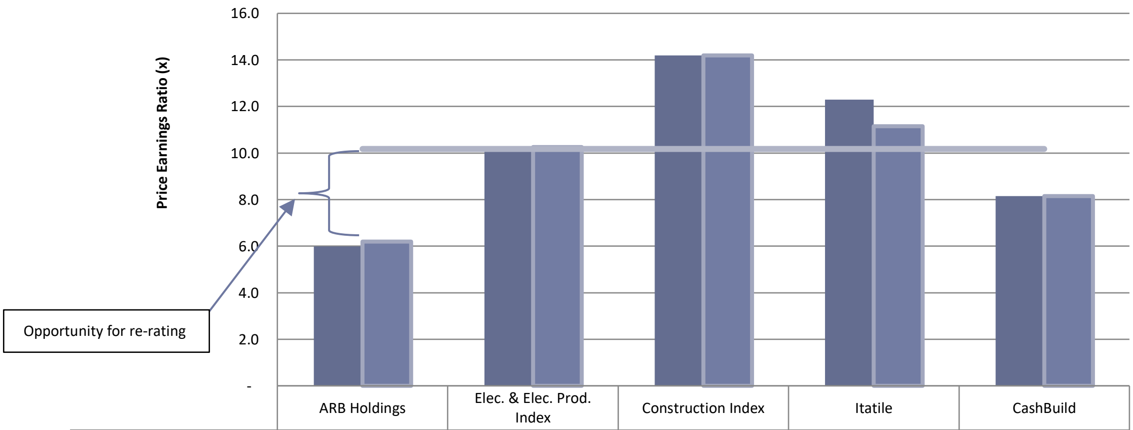
	H1:20A	FY 20E	FY 21E	FY 22E	FY 23E	FY 24E	FY 25E	FY 26E	Terminal Year
HEPS (cps)	-	54.1	53.6	56.2	60.5	65.0	69.9	75.1	78.9
Dividend Cover (x)	*0.0*	*2.0*	*1.8*	*1.6*	*1.4*	*1.2*	*1.0*	*1.0*	*1.0*
DPS (cps)	-	27.0	29.8	35.1	43.2	54.2	69.9	75.1	78.9
DWT (20%)	-	-5.4	-6.0	-7.0	-8.6	-10.8	-14.0	-15.0	-15.8
Net DPS (cps)	-	22	24	28	35	43	56	60	63
Discount Factor	*1.00*	*0.92*	*0.79*	*0.67*	*0.57*	*0.49*	*0.42*	*0.36*	*0.26*
Discounts DPS (cps)	-	20.0	18.7	18.9	19.8	21.2	23.3	21.4	225.0
Fair Value (cps)									**368cps**
Implied PE Ratio (x)									***5.4x***

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

Price Earnings (PE) Model

- Despite ARB Holdings' superb track record, the share still appears to trade at a discount versus comparative domestic shares and various indices touching on the Group's space (Figure 6).
- Given the IFRS changes, once-offs and Put Options revaluations flowing through ARB's results the last couple of reporting periods and similar such vast IFRS changes flowing through the rest of the market's company results, straight Price Earnings analysis has become somewhat less reliable. We note this as a specific risk here but disclose the below for reference anyway.

Figure 6: ARB Holdings Price Earnings (PE) Versus Peers, Indices & Annualized per Latest Results



	ARB Holdings	Elec. & Elec. Prod. Index	Construction Index	Itatile	CashBuild
Current PE (x)	6.0	10.3	14.2	12.3	8.2
Annualized Half-year	6.2	10.3	14.2	11.2	8.2
Average	10.2	10.2	10.2	10.2	10.2

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 562cps (previously: 576cps) on an implied Price Earnings (PE) of 8.3x.
  - This fair value implies that ARH shares are c.39% undervalued at current levels.

  - Our fair value implied PE does not appear unreasonable against the various comparatives in the market (Figure 6), though note our concerns around all the IFRS changes and once-off items with ARB's own results as well as the rest of the market.
- Rolling our fair value forward at our CoE, we arrive at a 12m TP of 659cps (previous 12m TP: 670cps).
  - A 12m TP of 659cps places the share on a fair Exit PE of 13.2x.
  - Our 12m TP also implies a return of c.63%.

Key Risks to Our Valuation

- The full impact of the COVID-19 viral outbreak remains a major downside variable both globally and, via its knock-on effects, into supply chains & even South Africa,
- The other macroeconomic variables in South Africa remain uncertain; specifically, GDP growth, construction and building sectors, labour environment, Eskom- and municipal-related spend, sovereign risk, amongst other variables + the above noted 'Terminal Year' growth rate,
- The exercise of the Eurolux put option against ARB Holdings,
- The successful turnaround of the Radiant acquisition,
- The successful extraction of operational upside from the Lord's View DC,
- 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 future, unquantified acquisitive activity.

Disclaimer

Confused by this report? View our methodology, FAQ and this disclaimer.

** Market prices in this report predominantly set to closing price on during 3 March 2020 (405cps).*

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ARB Holdings Ltd	B

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