Results Note
17 February 2021

ARB Holdings Ltd
H1:21 Results – Emerged Stronger

Share Code: ARH – Market Cap: R1.0bn – PE: 6.4x – DY: 0.0%

12m Target Price	**737cps**
Share Price	**430cps**
Implied Return	**71%**

Industrials | South Africa

H1:21 – Strong Beat

- ARB Holdings published an *excellent* H1:21 result showing good revenue growth and particularly strong profit growth from key cost-savings measures annualizing across the period.
- Revenue rose +5% y/y, Operating Profit shot up +59% y/y (thoroughly beating our expectations), & HEPS grew +26% to 41.1cps (H1:20 – 32.6cps).
- For a Group that typically generates strong cash flows, cash generation was particularly strong over this period and the Group's balance sheet remains very much ungeared.

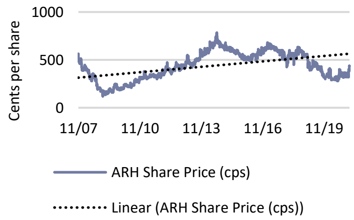
Our Thoughts: *Emerged* Stronger

- Management has built a superb Group over the years and, over the current pandemic, reacted swiftly in reigning back expenditure. Following from our previous results note, we believe that H1:21 has demonstrated that the Group has emerged stronger with more market share than at the beginning of this period. In the long-term, this can only be a good thing.
- We expect dividends to resume with the full-year results and have maintained our revenue expectations while adjusting our margin assumptions to reflect the fantastic gains made by the Group in H1:21 annualizing even further into H2:21E.

Forecast, Valuation & Implied Return: EV/EBIDTA lining up with DCF

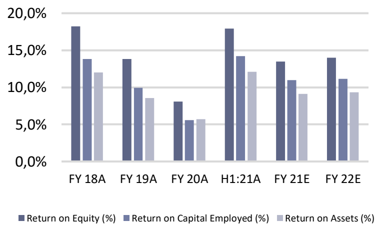
- We see fair value as 631cps (previously: 464cps) on a Price Earnings (PE) of c.9.2x.
- Interestingly, we have built a new EV/EBITDA Model for ARB against a hand-selected peer set and this model arrives at a fair value of 624cps, thus lending weight to our DCF fair value.
- Our implied 12m TP of 737cps (previous 12m TP: 546cps) places the share on an Exit PE of 12.9x & implies a potential return of c.71%, albeit with typical macro-risks remaining present.
- While "cheap" is not a defining characteristic of the current domestic small cap market, the combination of it with the high-quality of ARB's track record and prospects makes it unique.
- Refer to our original Initiation of Coverage for more background.

ARB's Share Price (cps)



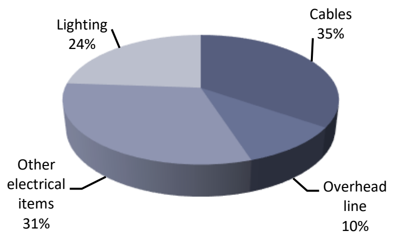
Sources: Bloomberg, Blue Gem Research

ARB's ROE (%), ROCE (%) & ROA (%)



Sources: Bloomberg, Blue Gem Research

ARB's Revenue Split – H1:21



Sources: Bloomberg, Blue Gem Research

Key Forecast (R m)	H1:19A	FY 19A	*YoY %*	H1:20A	FY 20A	*YoY %*	H1:21A	FY 21E	*YoY %*	FY 22E	*YoY %*
Revenue	1357	2706	*4%*	1418	2353	*-13%*	1494	2600	*11%*	2735	*5%*
EBITDA	99	173	*-21%*	108	167	*-4%*	182	271	*63%*	274	*1%*
HEPS (cps)	**23,2cps**	**58,2cps**	***-19%***	**32,6cps**	**60,0cps**	***3%***	**41,1cps**	**63,3cps**	***6%***	**70,3cps**	***11%***
Return on Equity (%)	*11,7%*	*13,8%*	-	*6,3%*	*8,1%*	-	*9,0%*	*13,5%*	-	*14,0%*	-
Price Earnings Ratio (x)	9,3x	7,4x	-	13,2x	7,2x	-	6,3x	6,8x	-	6,1x	-
DPS (cps)	*	25,0cps	*-29%*	*	-	*-100%*	*	25,3cps	*>100%*	28,1cps	*11%*
Dividend Yield (%)	*0,0%*	*5,8%*	-	*0,0%*	*0,0%*	-	*0,0%*	*5,9%*	-	*6,5%*	-

*Sources: ARB Holdings, Bloomberg, Iress, Blue Gem Research; *ARB only declares final dividends*

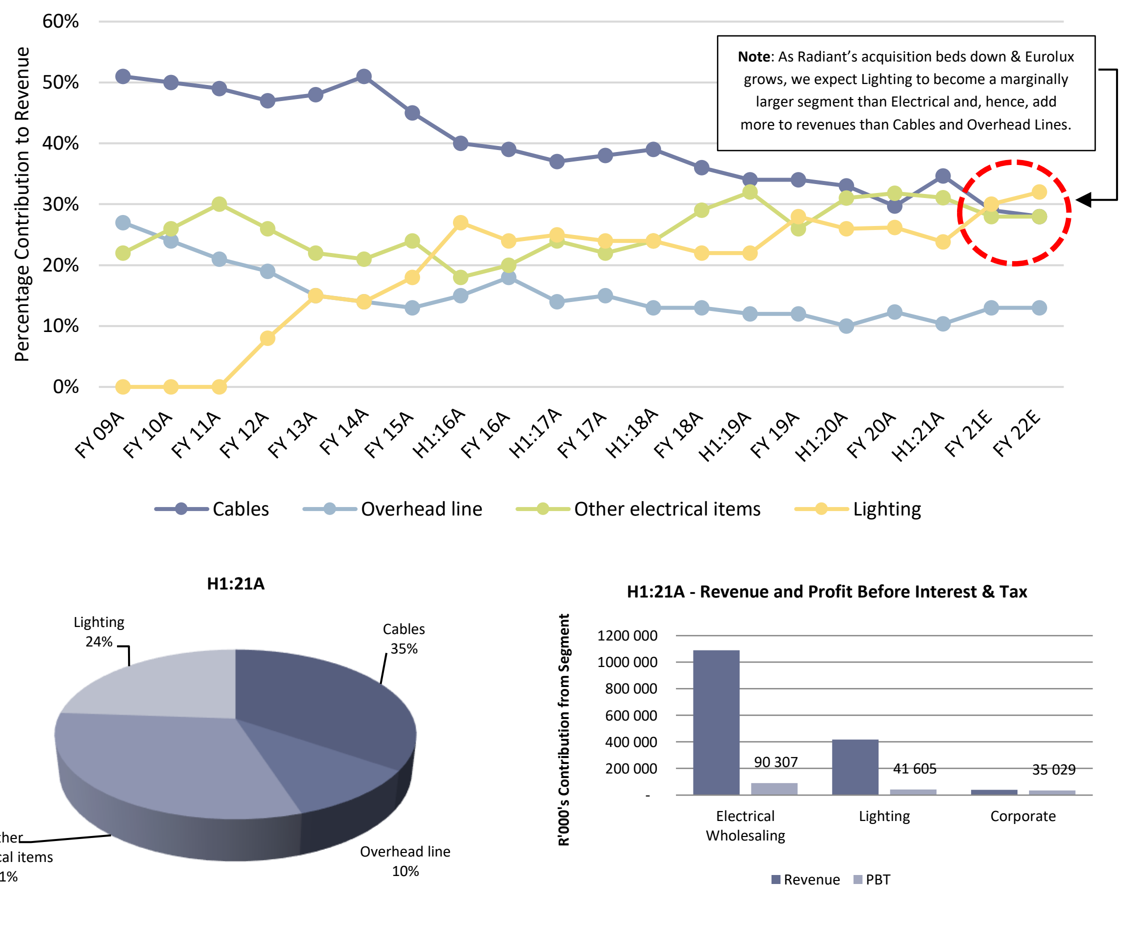
Key Forecast (R m)	**H1:19A**	**FY 19A**	***YoY %***	**H1:20A**	**FY 20A**	***YoY %***	**H1:21A**	**FY 21E**	***YoY %***	**FY 22E**	***YoY %***
Revenue	**1357**	**2706**	***4%***	**1418**	**2353**	***-13%***	**1494**	**2600**	***11%***	**2735**	***5%***
Electrical Wholesaling	1088	2097	*-1%*	1039	1746	*-17%*	1090	1892	*8%*	1987	*5%*
Lighting	288	649	*29%*	396	675	*4%*	419	773	*15%*	812	*5%*
Gross Profit	**319**	**651**	***6%***	**343**	**588**	***-10%***	**396**	**670**	***14%***	**679**	***1%***
Gross Profit Margin (%)	*23,5%*	*24,0%*	-	*24,2%*	*25,0%*	-	*26,5%*	*25,8%*	-	*24,8%*	-
Operating expenses	-228	-497	*19%*	-253	-453	*-9%*	-229	-435	*-4%*	-442	*2%*
EBITDA	**99**	**173**	***-21%***	**108**	**167**	***-4%***	**182**	**271**	***63%***	**274**	***1%***
EBITDA Margin (%)	*7,3%*	*6,4%*	-	*7,6%*	*7,1%*	-	*12,2%*	*10,4%*	-	*10,0%*	-
Operating Profit/(Loss) Before Interest	81	177	*-23%*	98	103	*-42%*	148	225	*119%*	248	*10%*
Net interest received/(paid)	13	17	*-29%*	3	4	*-78%*	3	5	*45%*	5	*-8%*
Net Profit (Parents)	**55**	**135**	***-20%***	**63**	**84**	***-38%***	**96**	**149**	***77%***	**165**	***11%***
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)	**23,3cps**	**57,4cps**	*-20%*	**27,0cps**	**35,7cps**	*-38%*	**41,0cps**	**63,3cps**	*77%*	**70,3cps**	*11%*
HEPS (cps)	**23,2cps**	**58,2cps**	*-19%*	**32,6cps**	**60,0cps**	*3%*	**41,1cps**	**63,3cps**	*6%*	**70,3cps**	*11%*
Gross Ordinary DPS (cps)	*	Cps	*-29%*	*	-	*-100%*	*	25cps	*>100%*	28cps	*11%*
Dividend Yield (%)	*0,0%*	*5,8%*	-	*0,0%*	*0,0%*	-	*0,0%*	*5,9%*	-	*6,5%*	-
Dividend Cover (x)	*	2,3x	*14%*	*	-	-	*	2,5x	*>100%*	2,5x	*0%*
Property, Plant & Equipment	388	413	*25%*	435	430	*4%*	531	517	*20%*	526	*2%*
Intangible Assets	96	76	*-20%*	76	10	*-87%*	10	10	*0%*	10	*0%*
Current Assets	992	1201	*3%*	1079	1105	*-8%*	1181	1141	*3%*	1265	*11%*
Net Cash	148	181	*-30%*	85	152	*-16%*	305	344	*126%*	451	*31%*
Cash	148	181	*-30%*	85	152	*-16%*	305	344	*126%*	449	*31%*
Overdraft	-	-	-	-	-	-	-	-	-	-	-
Interest-bearing Liabilities	-	-	-	-	-	-	-	-	-	-	-
Shareholder's Equity (Parent)	940	1022	*6%*	1041	1043	*2%*	1139	1132	*9%*	1231	*9%*
Non-current Liabilities	78	64	*-16%*	136	97	*52%*	183	285	*195%*	292	*3%*
Current Liabilities	335	478	*19%*	355	357	*-25%*	332	252	*-29%*	265	*5%*
NAV per share (cps)	399,9	435,1	*6%*	443,1	443,8	*2%*	484,9	481,8	*9%*	524,0	*9%*
TNAV per share (cps)	**363cps**	**408cps**	***9%***	**417cps**	**435cps**	***7%***	**474cps**	**478cps**	***10%***	**520cps**	***9%***
Cash Generated by Operations	78	226	*0%*	16	135	*-40%*	218	348	*157%*	265	*-24%*
Cash Conversion Ratio (%)	*79%*	*130%*	-	*15%*	*81%*	-	*120%*	*128%*	-	*97%*	-
Net Cash Flow from Financing Activities	-64	-204	*78%*	-30	-46	*-77%*	-18	-113	*143%*	-34	*-70%*
Net Increase / (Decrease) in Cash	-	39	*277407 %*	-	-29	*-174%*	-28	75	*-363%*	-1	*-102%*
Return on Equity (%)	***11,7%***	***13,8%***	**-**	***12,7%***	***8,1%***	**-**	***17,9%***	***13,5%***	**-**	***14,0%***	**-**
Return on Capital Employed (%)	***10,1%***	***9,9%***	**-**	***10,8%***	***5,6%***	**-**	***14,2%***	***11,0%***	**-**	***11,1%***	**-**
Return on Assets (%)	*8,6%*	*8,6%*	-	*8,5%*	*5,7%*	-	*12,1%*	*9,1%*	-	*9,3%*	-
Price Earnings Ratio (x)	***9,3x***	***7,4x***	**-**	***13,2x***	***7,2x***	**-**	***6,3x***	***6,8x***	**-**	***6,1x***	**-**
Price-to-Book (x)	*1,1x*	*1,0x*	-	*1,0x*	*1,0x*	-	*0,9x*	*0,9x*	-	*0,8x*	-
Price-to-Tangible-Book (x)	*1,2x*	*1,1x*	-	*1,0x*	*1,0x*	-	*0,9x*	*0,9x*	-	*0,8x*	-
Current Ratio	*3,0x*	*2,5x*	-	*3,0x*	*3,1x*	-	*3,6x*	*4,5x*	-	*4,8x*	-
Quick Ratio	*1,4x*	*1,2x*	-	*1,3x*	*1,4x*	-	*2,0x*	*2,6x*	-	*3,0x*	-

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

H1:21 Results Highlights

- ARB Holdings published an excellent H1:21 result showing good revenue growth and particularly strong profit growth from key cost-savings measures:
    - Revenue rose +5% y/y (we expect full-year to come in at +8% y/y due to the weak H2:20),
    - Operating Profit shot up +59% y/y (thoroughly beating our expectations), &
    - HEPS grew +26% to 41.1cps (H1:20 – 32.6cps).
- The Group appears to have won market share from the unwind of the prior period's overstocked lighting position while the cabling side performed admirably too. Particularly the former drove superb cash generation as Cash Generated by Trading Activities rose +60% y/y and the Group ended with R305m cash on its balance sheet (the Group remains very much ungeared on a net basis).
- Supply of some products remains challenging while credit risk and the devolution of credit insurers domestically are nuanced problems but, arguably, ones that management appears to be on top of. Likewise, record rand-copper prices (RCP) elevate risk on the cabling side of the Group, but this risk has been steadily receding year-on-year for over a decade now as management has grown the Group into other areas (in fact, we expect Lighting to become the Group's large revenue contributor by FY 22~23E).
- Management—as do we—highlight the high degree of volatility in the near-term and the challenge in any form of guidance, albeit we believe that the decisions taken in the previous years & the swift and well-executed operational decisions taken in the current pandemic can all be credited for the strong front-foot that the Group finds itself on over this current (and hopefully subsequent) period(s). The macro may remain uncertain, but ARB Holdings' many strengths do not.

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)	H1:19A	FY 19A	H1:20A	FY 20A	H1:21A	FY 21E	FY 22E
Revenue	1088	2097	1039	1746	1090	1892	1987
Change in Revenue	*-2%*	*-1%*	*-5%*	*-17%*	*5%*	*8%*	*5%*

Sources: Bloomberg, Blue Gem Research and ARB Holdings

- The Electrical Division saw revenues rise +5% y/y (we forecast +8% y/y full-year revenue growth as H2:20 created a weak base for H2:21E) and, perhaps more importantly, margins widened far more aggressively than we expected (full credit to management here!).
- Operating Profits rose +61% y/y as gross margins remained firm and annualized cost-savings came through seeing an extraordinarily strong overall performance.
- These cost-savings included right-sizing of the operations with particularly labour and rental costs being slashed, two marginal stores in the network being closed and inventory being tightly managed.
- We have maintained our view for a full-year +8% revenue growth, have attempted to reflect the better cost-base going forward and remain optimistic as to this segment’s potential to benefit from any upturn in infrastructure and electrical markets in South(ern) Africa. We acknowledge that a huge swing factor (either to the upside or downside) is Eskom and Eskom-related spending (i.e. when/if it comes to market). Finally, we do highlight that there remain supply challenges on the cabling side that may negatively affect the volumes realized into that market.
- The Group’s Lord’s View DC is integral in extracting efficiencies in this segment and, despite the warehouse management system (WMS) starting to function during this period, management only expects benefits to begin to flow from H1:22E as processes and costs (i.e. working capital) is streamlined over time.
- **Note**: The management of Craigcor owns 25% of Craigcor’s equity. They have a put option with these shares against ARB Holdings. The option is not yet exercisable and disclosed in the non-current liability section. We do not assume that this option is exercised at any time in the future in our forecasts.

Lighting Division segment

Table 2: Lighting – Key Revenue History and Forecasts

Key Forecasts (R m)	H1:19A	FY 19A	H1:20A	FY 20A	H1:21A	FY 21E	FY 22E
Revenue	288	649	396	675	419	773	812
Change in Revenue	*13%*	*29%*	*37%*	*4%*	*6%*	*15%*	*5%*

Sources: Bloomberg, Blue Gem Research, South Ocean and ARB Holdings

- Lighting grew revenue +6% y/y and basically doubled their Operating Profits.
- While slightly below our revenue target, the large upside surprise on the margin side came from a successful rationalization and integration of Radiant facilities into Eurolux. Management has guided that this process is largely complete (except some potential logistics cost savings), thus we have annualized in the cost-base as a floor now and only model revenue growth going forward.
- While this segment started the period in an overstocked position, this has been advantageous and allowed them to win market share via product availability. This situation, though, has played out (i.e. converted into cash and, thus, is a key contributor to the Group’s large cash generation over this period adding c.R90m to free cash flows) and we model in a more normalized working capital cycle going forward.
- Despite the strong performance in this segment, we have slightly lowered our overall expectation for FY 21E’s revenue growth from +20% y/y to +15% y/y as the robust consumer spending on DIY and related materials may start to come under pressure in the H2 of the year. Despite this, further value being extracted from Radiant and the cost-based rationalization should still see this revenue converting comfortably into profits and expect a good full-year performance here.

- **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 fairly valued through the Group's profits each period per IFRS requirements, albeit having little to do with the Group's actual operational performance. We do not expect it to be exercised in our forecasts.

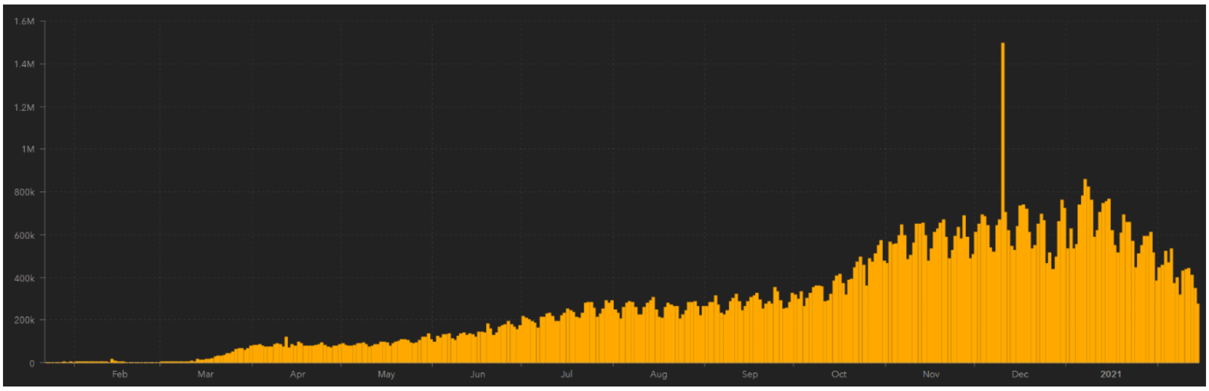
Group services segment

- **Strategic acquisitions**: Management has reiterated their acquisitive intentions and noted the expansion of the Electrical Division's product range as a potential move. That said, we expect their focus to remain on extracting value from the Radiant acquisition and have not modelled nor expect any material near-term acquisitions (including no share buy-backs).
- **Property**: The property segment operated in line with expectations as rentals came under pressure, the Group's store footprint was rationalized and Lord's View came on stream.

Macro Analysis

- The macro-environment remains dominated by two major and related variables:
  - **COVID-19**: The pandemic and its second-wave have swept through the globe infecting (at the date of writing this – Figure 2) 108m people and killing 2.4m people. Vaccines and their roll-out are an opposing vector, albeit one that is at risk given the appearances of viral mutations.
  - **Lockdown-induced global recession**: Much like in the first-wave, global governments have generally responded by various forms of lockdowns that create large economic disruptions to individuals, businesses, sectors and supply chains.

Figure 2: COVID-19 Daily Cases

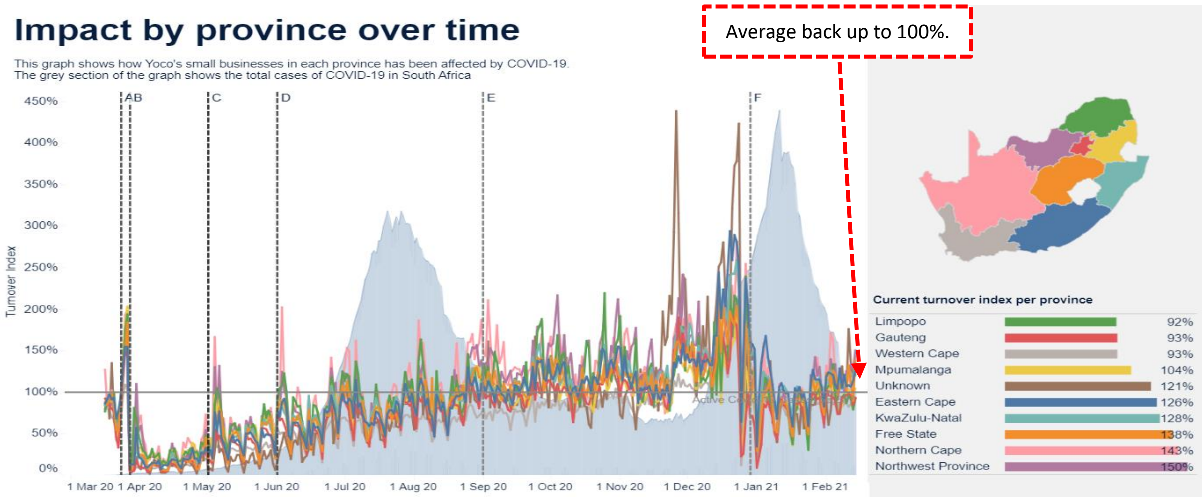


Source: John Hopkins University

- We all know of the global and domestic damage and challenges that have occurred. We believe that there is little value in us rehashing or disclosing what is well-known at this point.
- We believe that we can add more value by highlighting some unique "real-time" data, namely the Yoco payment monitor and highlighting how the economy may be doing *right now*:
  - Yoco has installed Point-of-Sales devices across South Africa in a wide swathe of SME's and merchants. The business aggregates and displays this data for us on their website: LINK.
  - This data is skewed towards card transaction (not cash) and towards SME's domestically. Despite data bias, the SME sector is also arguably both a leading indicator of the downside and a lagging indicator of recovery (given that most SME's are more fragile than larger corporates and the public sector).
  - Therefore, this data paints the "worst-case" picture of the more fragile part of the domestic economy and, thus, can be used to extrapolate how the real-time recovery is performing.

    - I.e. When SME's have recovered fully in South Africa, we can assume the same is probably true of most other parts of the economy.
- Refer to the full data in Figure 3 on the next page.
- What we can extrapolate from this data that is relevant for ARB Holdings is:
    - Yoco's payment monitor is back up to 100% and, hence, South Africa is back up to c.100% capacity (at the time of writing this), though this is disproportionately spread between provinces and sectors.
    - ARB's Head Office and historical exposure to KZN may help it (KZN is at 128% of the spend it was before COVID), though Gauteng is by far the largest economic province and this may drag the numbers down (Gauteng is only c.92%).
    - This data shows consumer spend but ARB's product range will be more affected by large infrastructural spend (which remains pretty non-existent everywhere except in political speeches).
- Eskom and its related spend remain a key ARB-related risk (both to the upside, if it happens, or to the downside, if it does not).

Figure 3: Yoco Payments Monitor (as of 15 February 2021)



Source: Yoco.co.za

Forecasts

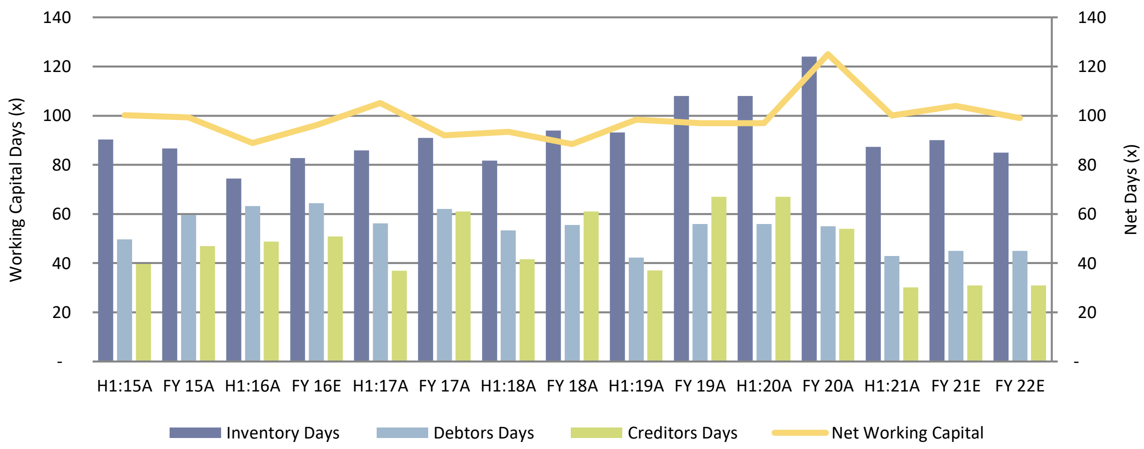
Revenues and profitability

- We expect FY 21E's cost-base to annualize in line with H1:21 while we have kept a slightly higher revenue growth rate in Electrical and a slightly lower one in Lighting.
- In terms of margins, we expect steady margins, though caution that stock availability and/or bad debts may create downside surprises in this assumption below the GP-line.
- Finally, we have only modelled some "cost-savings" from Lord's View DC in FY 22E onwards, though these take the form of slightly lower working capital that pushes through the Group's centre.

Liquidity, solvency and assets

- As noted above, we expect the Group's working capital requirements to lower from FY 22E (how much, though, is a trickier argument) and see from H1 into H2:21E the overstocking in FY 20A normalising.
- The Group's balance sheet remains liquid and solvent and we do not expect this to change over the forecast period.

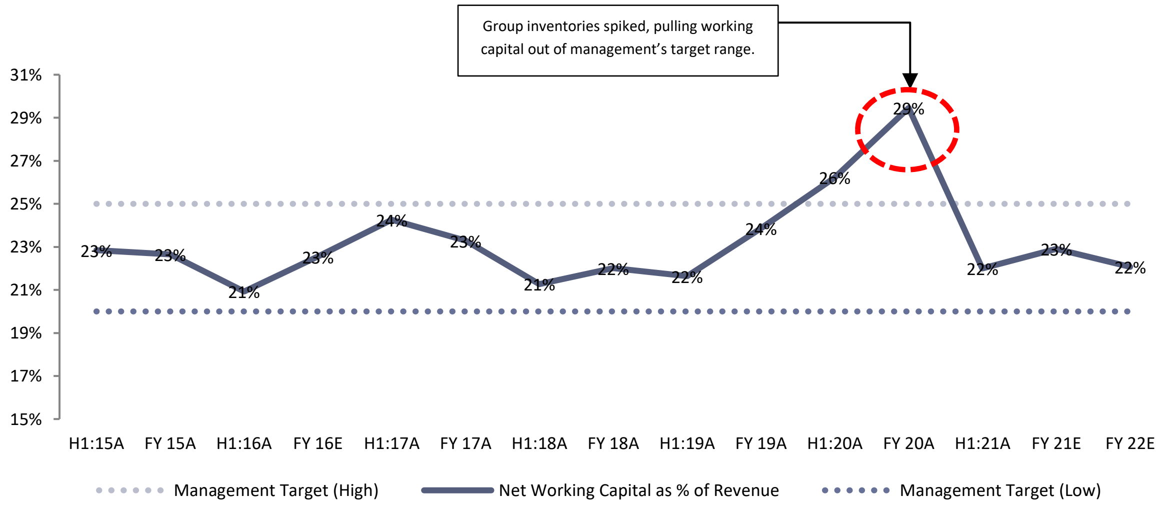
Figure 4: Working Capital History of ARB Holdings



Sources: ARB Holdings, Blue Gem Research workings

- As noted above, Figure 5 shows the breach of working capital in FY 20 that has normalized into H1:21E. We expect this to continue as management has been exemplary in controlling working capital within their self-imposed target of 20% to 25% of revenue.

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. 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 16.8% (previously: 17.8%) based on a "Rule of Thumb" beta of 1.5x (unchanged) and an Equity Risk Premium of 5.5% (unchanged). The drop in CoE is due to the strengthening of the 10-year South African bond yields that have recently dropped to c.8.5% (previously 9.2%).

- Growth rates of the following:
  - FY 21E & FY 22E: per our forecasts in this report,
  - FY 23E to FY 26E: 9.0% y/y (4% real and c.5% inflation), and
  - Terminal Year: 8.5% y/y (3.5% real and 5% inflation) – see note below.
- Finally, we take out an effective estimate of the minority interest of c.10% (previously: 10%) from the Group.

Table 3: DCF Model – ARB Holdings

	H1:20A	FY 20A	H1:21A	FY 21E	FY 22E	FY 23E	FY 24E	FY 25E	FY 26E	Terminal Year
EBITDA	114	124	161	250	274	298	325	354	386	457
Less: Tax	-28	-30	-28	-61	-67	-73	-79	-87	-94	-112
Less: Working Capital	-98	-47	87	97	-8	-9	-10	-11	-12	-14
Less: Capex	-30	-42	-104	-124	-50	-55	-60	-65	-71	-42
Free Cash Flow (FCF)	-42	4	116	163	148	162	176	192	209	290
Discounted FCF	-	-	-	151	118	110	102	96	89	681
NPV (Enterprise Value)										1429
Add: Net Cash										226
Fair Value, inc. Minorities (R m)										R1,6bn
Fair Value, ex. Minorities (R m)										**R1,5bn**
Fair Value of ARB shares (cps)										**631cps**
Implied Price Earnings (x)										*9,2x*
Discount to Fair Value (%)										*47%*
12m TP (cps)										**737cps**
Exit Price Earnings (x)										*12,9x*
Implied Return (%)										*71%*

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

- We arrive at a fair value of 631cps (previously: 464cps) on an implied Price Earnings (PE) of 9.2x. The rise in this fair value is partially attributable to a lower discount rate and partially due to better results being factored into our forecast period.
- Rolling this fair value forward at our CoE implies a 12m TP of 737cps (previous 12m TP: 546cps).
- 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 8.5% is made up of the following:
  - 5% inflation assumption (we acknowledge that this may be considered high but the steeply sloping domestic bond curve implies a higher long-term inflation rate than the 3.1% CPI we are currently experiencing), &
  - 1.0~2.0% population growth + 1.0~2.0% urbanisation growth + 1.0~1.5% technological/efficiency growth = c.3.5% 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 3.5% y/y real growth rate to 2% y/y, we arrive at the following:
    - **DCF Fair value**: 602cps (i.e. c.5% lower than the above), &
    - **DCF 12m TP**: 703cps (i.e. c.5% lower than the above).
  - Hence, we highlight the Terminal Year and the sustainable growth rate of the domestic economy as a risk and a notable variable in the valuation of ARB Holdings.

Price Earnings (PE) Model

- The volatile earnings base across the JSE has distorted the comparative clean PE's we may use for comparison here.
- Thus, we have suspended this valuation model for use on ARB.
- Rather, we have decided to use a gearing-neutral EBITDA-based relative model.
- Hence, we now favour an Enterprise Value/EBITDA (EV/EBITDA) model instead.

Enterprise Value/EBITDA (EV/EBITDA) Model

- Across the JSE, if we hand-select Cashbuild (code: CSB), Italtile (code: ITE), Reunert (code: RLO) and Bidvest (code: BVT) are (imperfect but correlated) comparatives and build an EV/EBITDA analysis, we expect a similar-sized peer to trade at c.8.7x EV/EBITDA.
- We have further taken a 40% discount out to account for ARB's smaller size and less liquid script, thus arriving at an implied EV/EBITDA of 5.2x.
- Refer to Table 4 for full workings.

Table 4: EV/EBITDA Model – ARB Holdings

	Market Cap (R's)	Net Debt (R's)	Enterprise Value (R's)	12m EBITDA (R's)	EV/EBITDA (x)
Cashbuild	7 405 730 489	-1 951 582 000	54 54 148 489	875 132 000	6,2x
Italtile	23 327 195 712	-1 100 000 000	22 227 195 712	2 269 000 000	9,8x
Reunert	8 349 509 507	- 307 000 000	80 42 509 507	1 133 000 000	7,1x
Bidvest	59 548 010 550	19 200 000 000	787 48 010 550	6 800 000 000	11,6x
Average					**8,7x**
Less: Discounts					*-3,5x*
- Smaller Cap Discount (20%)					*-1,7x*
- Illiquidity Discount (20%)					*-1,7x*
ARB's Implied EV/EBITDA (x)					**5,2x**
ARB's 12m EBITDA				R240m	
Hence, ARB's EV			R1,3bn		
Add: Net Cash		R213m			
Therefore, ARB's Fair Value	**R1,5bn**				
Fair Value (cps)	**624cps**				

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

- Hence, per our EV/EBITDA analysis, ARB's fair value should be 624cps (ignoring minority interests).
- Given that our DCF fair value is 631cps, this gives us further confidence that our forecasting and valuation is likely reflective of what the market expects and what ARB's share price should be expressing.

Valuation, 12m TP and Implied Return

- We reiterate our preferred valuation methodology as the DCF, therefore implying that our fair value for ARH is 631cps (previously: 464cps) on an implied Price Earnings (PE) of 9.2x.
  - This fair value implies that ARH shares are c.47% undervalued at current levels.
  - This fair value is further enhanced by agreeing with our EV/EBITDA model's fair value of 624cps.
- Rolling our fair value forward at our CoE, we arrive at a 12m TP of 737cps (previous 12m TP: 546cps).
  - A 12m TP of 737cps places the share on a fair Exit PE of 12.9x.
  - Our 12m TP also implies a return of c.71%.

Key Risks to Our Valuation

- The knock-on effects, mutation, any resurging in and/or any vaccine-related relief that emerges from the COVID-19 pandemic,
- The future trajectory of the South African lockdown measures,
- 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 and Craigcor put options against ARB Holdings,
- The continuing 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 an intra-day price on during 12 February 2021 (430cps).*

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