Results Note
30 August 2021

ARB Holdings Ltd
FY 21 Results – Shooting the Lights Out

Share Code: ARH – Market Cap: R1.3bn – PE: 6.8x – DY: 4.6%

12m Target Price	**766cps**
Share Price	**560cps**
Implied Return	**37%**

Industrials | South Africa

FY 21 – Exceptionally strong results

- ARB Holdings released exceptionally strong FY 21 results with revenue roaring ahead by +24% y/y (and +8% versus FY 19) to R2.9bn (FY 20: R2.3bn) driven by a recovery in both Electrical and Lighting that is likely to carry into FY 22E (at least).
- Added to this top-line expansion, the Group's cost-savings, efficiency gains & cash preservation all aided HEPS upwards by +38% y/y (and +41% versus FY 19) to 82.5cps (FY 20: 59.9cps) & making a mockery of our forecast FY 21 HEPS.
- The Group resumed its dividend payments and declared a full-year dividend of 42.5cps that includes a 10cps special dividend.

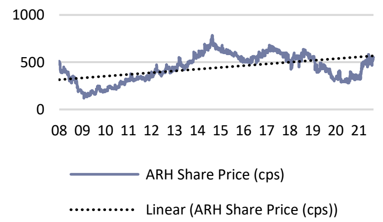
Our Thoughts: CEO continuity in place

- ARB's results are even more impressive considering that they were produced during a period that saw a range of hard lockdown levels, multiple waves of COVID, Eskom loadshedding and a domestic recession.
- Long-serving CEO, William Neasham, has announced his retirement and lined up Blayne Burke as his successor.
- Burke has run the Group's major Electrical Division for many years and, thus, provides deep institutional knowledge, expertise, and comfortable continuity at the executive level.

Forecast, Valuation & Implied Return: Margin of Safety

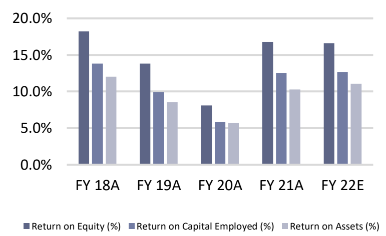
- We see fair value as 654cps (previously: 631cps) on a Price Earnings (PE) of c.7.9x, which is hardly demanding given the quality of the underlying businesses.
- Our EV/EBITDA-implied fair value of 740cps backs up this view, if not hinting at a degree of upside risk to our forecasts.
- Using our DCF as a base, our implied 12m TP of 766cps (previous 12m TP: 737cps) places the share on an Exit PE of 8.0x & implies a potential return of c.37%.
- Refer to our original Initiation of Coverage for more background.

ARB's Share Price (cps)



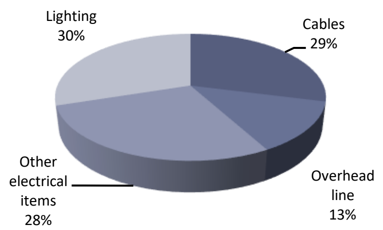
Sources: Bloomberg, Blue Gem Research

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



Sources: Bloomberg, Blue Gem Research

ARB's Revenue Split – FY 21



Sources: Bloomberg, Blue Gem Research

Key Forecast (R m)	FY 19A	YoY %	FY 20A	YoY %	FY 21A	YoY %	FY 22E	YoY %	FY 23E	YoY %
Revenue	2,706	*4%*	2,353	*-13%*	2,923	*24%*	3,110	*6%*	3,273	*5%*
EBITDA	173	*-21%*	167	*-4%*	324	*94%*	350	*8%*	382	*9%*
HEPS (cps)	**58.2cps**	***-19%***	**60.0cps**	***3%***	**82.5cps**	***38%***	**95.9cps**	***16%***	**102cps**	***6%***
Return on Equity (%)	*13.8%*	-	*8.1%*	-	*16.8%*	-	*17.3%*	-	*16.6%*	-
Price Earnings Ratio (x)	*9.6x*	-	*9.3x*	-	*6.8x*	-	*5.8x*	-	*5.5x*	-
DPS (cps)	25.0cps	*-29%*	-	*-100%*	42.5cps	*>100%*	38.4cps	*-10%*	40.7cps	*6%*
Dividend Yield (%)	*4.5%*	-	*0.0%*	-	*7.6%*	-	*6.9%*	-	*7.3%*	-

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

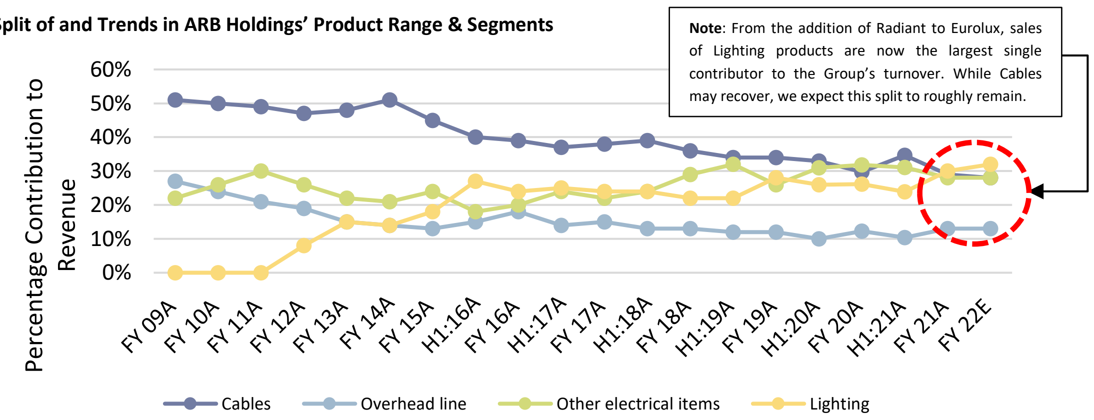
Key Forecast (R m)	**FY 19A**	***YoY %***	**FY 20A**	***YoY %***	**FY 21A**	***YoY %***	**FY 22E**	***YoY %***	**FY 23E**	***YoY%***
Revenue	**2,706**	***4%***	**2,353**	***-13%***	**2,923**	***24%***	**3,110**	***6%***	**3,273**	***5%***
Electrical Wholesaling	2,097	*-1%*	1,746	*-17%*	2,191	*25%*	2,345	*7%*	2,474	*5%*
Lighting	649	*29%*	675	*4%*	812	*20%*	850	*5%*	889	*5%*
Gross Profit	**651**	***6%***	**588**	***-10%***	**751**	***28%***	**780**	***4%***	**817**	***5%***
Gross Profit Margin (%)	*24.0%*	-	*25.0%*	-	*25.7%*	-	*25.1%*	-	*25.0%*	-
Operating expenses	-497	*19%*	-453	*-9%*	-473	*5%*	-482	*2%*	-489	*2%*
EBITDA	**173**	***-21%***	**167**	***-4%***	**324**	***94%***	**350**	***8%***	**382**	***9%***
EBITDA Margin (%)	*6.4%*	-	*7.1%*	-	*11.1%*	-	*11.3%*	-	*11.7%*	-
Operating Profit/(Loss) Before Interest	177	*-23%*	103	*-42%*	271	*163%*	316	*17%*	347	*10%*
Net interest received/(paid)	17	*-29%*	4	*-78%*	5	*42%*	7	*31%*	9	*34%*
Net Profit (Parents)	**135**	***-20%***	**84**	***-38%***	**191**	***128%***	**225**	***18%***	**239**	***6%***
Weighted Ave. Number of Shares (millions)	235.0	*0%*	235.0	*0%*	235.0	*0%*	235.0	*0%*	235.0	*0%*
EPS (cps)	**57.4cps**	*-20%*	**35.7cps**	*-38%*	**81.4cps**	*128%*	**95.9cps**	*18%*	**102cps**	*6%*
HEPS (cps)	**58.2cps**	*-19%*	**60.0cps**	*3%*	**82.5cps**	*38%*	**95.9cps**	*16%*	**102cps**	*6%*
Gross Ordinary DPS (cps)	25cps	*-29%*	-	*-100%*	43cps	*>100%*	38cps	*-10%*	41cps	*6%*
Dividend Yield (%)	*4.5%*	-	*0.0%*	-	*7.6%*	-	*6.9%*	-	*7.3%*	-
Dividend Cover (x)	2.3x	*14%*	-	-	1.9x	-	2.5x	-	2.5x	-
Property, Plant & Equipment	413	*25%*	430	*4%*	509	*18%*	609	*20%*	620	*2%*
Intangible Assets	76	*-20%*	10	*-87%*	10	*0%*	10	*0%*	10	*0%*
Current Assets	1,201	*3%*	1,105	*-8%*	1,449	*31%*	1,458	*1%*	1,585	*9%*
Net Cash	181	*-30%*	152	*-16%*	345	*127%*	399	*16%*	502	*26%*
Cash	181	*-30%*	152	*-16%*	345	*127%*	397	*15%*	500	*26%*
Overdraft	-	-	-	-	-	-	1	-	1	-
Interest-bearing Liabilities	-	-	-	-	-	-	1	-	1	-
Shareholder's Equity (Parent)	1,022	*6%*	1,043	*2%*	1,236	*18%*	1,371	*11%*	1,514	*10%*
Non-current Liabilities	64	*-16%*	97	*52%*	164	*70%*	160	*-2%*	160	*0%*
Current Liabilities	478	*19%*	357	*-25%*	525	*47%*	478	*-9%*	455	*-5%*
NAV per share (cps)	435cps	*6%*	444cps	*2%*	526cps	*18%*	583cps	*11%*	644cps	*10%*
TNAV per share (cps)	409cps	*9%*	436cpd	*7%*	512cps	*18%*	579cps	*13%*	640cps	*11%*
Cash Generated by Operations	226	*0%*	135	*-40%*	356	*163%*	330	*-7%*	335	*2%*
Cash Conversion Ratio (%)	*130%*	-	*81%*	-	*110%*	-	*94%*	-	*88%*	-
Net Cash Flow from Financing Activities	-204	*78%*	-46	*-77%*	-26	*-44%*	-135	*417%*	-47	*-65%*
Net Increase / (Decrease) in Cash	39	-	-29	-	-43	-	9	-	-10	-
Return on Equity (%)	***13.8%***	**-**	***8.1%***	**-**	***16.8%***	**-**	***17.3%***	**-**	***16.6%***	**-**
Return on Capital Employed (%)	***9.9%***	**-**	***5.8%***	**-**	***12.5%***	**-**	***13.2%***	**-**	***13.1%***	**-**
Return on Assets (%)	***8.6%***	**-**	***5.7%***	**-**	***10.3%***	**-**	***11.4%***	**-**	***11.3%***	**-**
Price Earnings Ratio (x)	*9.6x*	-	*9.3x*	-	*6.8x*	-	*5.8x*	-	*5.5x*	-
Price-to-Book (x)	*1.3x*	-	*1.3x*	-	*1.1x*	-	*1.0x*	-	*0.9x*	-
Price-to-Tangible-Book (x)	*1.4x*	-	*1.3x*	-	*1.1x*	-	*1.0x*	-	*0.9x*	-
Current Ratio	*2.5x*	-	*3.1x*	-	*2.8x*	-	*3.1x*	-	*3.5x*	-
Quick Ratio	*1.2x*	-	*1.4x*	-	*1.6x*	-	*1.8x*	-	*2.2x*	-

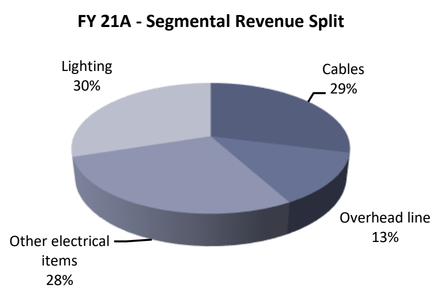
Sources: ARB Holdings, Bloomberg, Iress, Blue Gem Research workings, assumptions, and forecasts

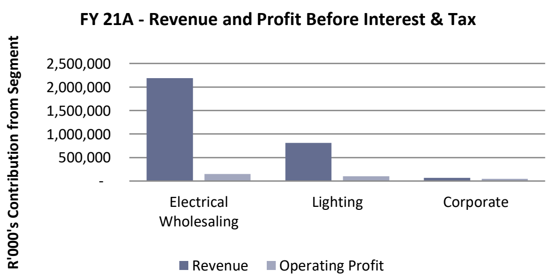
FY 21 Results Highlights

- ARB Holdings released exceptionally strong FY 21 results that continued its winning streak reported at the interim stage:
    - Group revenue roared ahead by +24% y/y (*and* +8% versus FY 19) to R2.9bn (FY 20: R2.3bn) driven by a recovery in both Electrical and Lighting. This is miles ahead of our expected R2.6bn figure.
    - On the back of this strong sales expansion, cost-savings, right-sizing, efficiency gains & cash preservation during the prior and current periods all played into the Group's hands that saw its HEPS leap by +38% y/y (*and* +41% versus FY 19) to 82.5cps (FY 20: 59.9cps), making a mockery of our forecasted HEPS of 63.3cps.
    - As expected, the Group resumed its dividend payments and declared a full-year dividend of 42.5cps that includes a 10cps special dividend (FY 20: No dividend was paid as directors decided to preserve cash over the period on uncertainty).
    - These results are even more impressive considering that they were produced during a period that saw a range of hard lockdown levels, multiple waves of COVID, Eskom loadshedding and a domestic recession.
- A range of important qualitative factors have also occurred during this reporting period:
    - Long-serving CEO, William Neasham, has announced his retirement and lined up Blayne Burke as his successor. Burke has run the Group's major Electrical Division for several years and, thus, provides deep institutional knowledge, expertise and comfortable continuity at the executive level.
    - The Group's Radiant acquisition has now been bedded down and its cost-based rationalized. Also, finally, this business's properties have been transferred and are now on the Group's balance sheet (along with some mortgage financing).
    - The Group's Lord's View DC has operationalised and overhead savings along with working capital efficiencies should begin to flow (probably more from H2:22E onwards).

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)	FY 16A	FY 17A	FY 18A	FY 19A	FY 20A	FY 21A	FY 22E	FY 23E
Revenue	2,006	1,996	2,120	2,097	1,746	2,191	2,345	2,474
Change in Revenue	*15%*	*0%*	*6%*	*-1%*	*-17%*	*25%*	*7%*	*5%*

Sources: Bloomberg, Blue Gem Research and ARB Holdings

- The Electrical Division recovered its revenues by +25% y/y (+4.4% versus FY 19) to R2.2bn (FY 20: R1.7bn) and saw its operating profit double off FY 20's low base. All these measures were miles ahead of our expectations and were driven by a range of variables:
  - The Rand-copper price moved strongly in the Group's favour and, with good inventory on hand, it boosted pricing (and, indeed, gross margin),
  - Projects that were previously delayed were restarted,
  - An opportunistic move into the cable management products range worked well, &
  - Finally—while more positive for the retail-orientated Lighting segment—discretionary consumer spending on DIY-related items also remained elevated.
- Despite coming off a high base, trading in this segment has remained buoyant post reporting period.
- Indeed, the 100MW self-generation limit being increased and the likely rebuilding & repairs following riot-damaged buildings aid these tailwinds. Likewise, further upside is likely from the addition of solar-related products, cable management systems, and the continuing consumer DIY demand.
- Therefore, we have raised our expected growth rates for FY 22E and FY 23E period, though note the risks to the downside below.
- Risks—or, at least, uncertainties—to this are the volatile Rand-copper price that has come down somewhat and could drive a small degree of margin compression (we have lowered some GP margin expectations to try to control for this risk) while the domestic economy and Eskom-related spending are further uncertainties that may create down- or upside risk to this forecast.
- **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, though we do count the Put option against net cash.

Lighting Division segment

Table 2: Lighting – Key Revenue History and Forecasts

Key Forecasts (R m)	FY 17A	FY 18A	FY 19A	FY 20A	FY 21A	FY 22E	FY 23E
Revenue	511	502	649	675	812	850	889
Change in Revenue	*1%*	*-2%*	*29%*	*4%*	*20%*	*5%*	*5%*

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

- The Lighting Division completed its integration of Radiant and enjoyed the DIY tailwinds growing its revenue by +20% y/y (+25% versus FY 19) to R812m (FY 20: R675m). This result was +5% ahead of our expectations but margins were better than we anticipated as well. Specific drivers were:
  - Consumer DIY spending creating demand-pull through this segment's retail customer base,
  - The supply chain disruptions negatively affecting competitors while this segment's prior period excess stock was opportunistically used to drive market share (& margin) growth, &
  - The completion of Radiant's integration and resulting rationalisation seeing a significant reduction on the cost-base and, thus, improved (operating) margins.
- Aligned with the Electrical Division, we have raised our forecast growth rates in Lighting as DIY and post-riot rebuilding add further momentum to this segment's expected revenues.
- Stock shortages, supply chain issues and a weak consumer all create downside risks against this forecast, but—similar to the Electrical Division—we have controlled for this through margin

assumptions, particularly as the prior period's advantageous stock holding is eroded and more "normal" trading margins ensue.

- **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, though we do count the Put option against net cash.

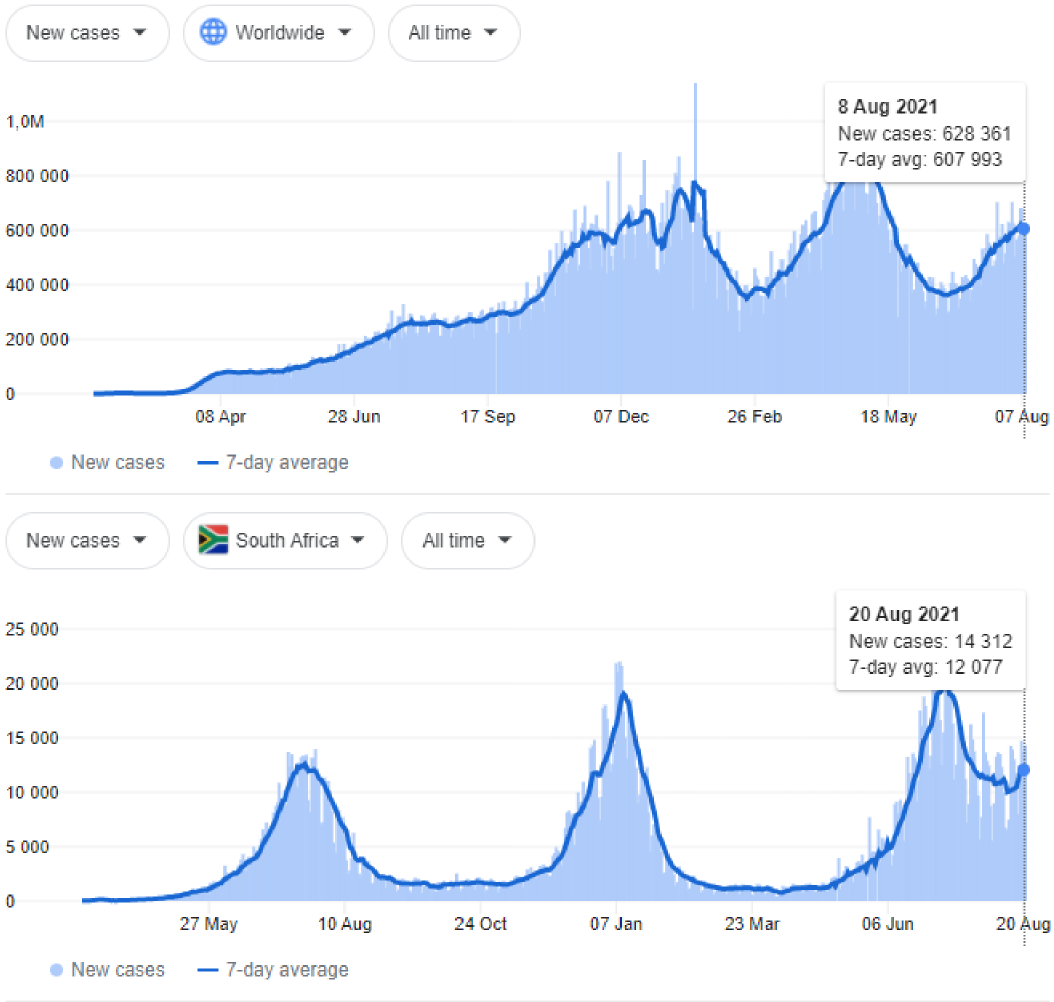
Group services segment

- **Strategic acquisitions**: Given that the Radiant acquisition has been bedded down and Lord's View is now operational, management's acquisitive intentions may potentially lead to some action (depending on deal flow and pricing). To reiterate, management intends to expand the electrical product range and could do so acquisitively.
- **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 but also now includes the Radiant business' underlying property.

Macro Analysis

- The macro-environment remains dominated by three major and inter-related variables:
    - **Domestic riots**: The violent and destructive riots that broke out in KwaZulu-Natal (and, to a lesser extent, in Gauteng) from late June into July 2021 were both destructive to property and businesses *and* hugely disruptive to supply chains. Other than ARB's internal IT business seeing its offices destroyed, the Group was unscathed, albeit disrupted (Eurolux saw around 200 different delivery points unable to deliver). This should negatively affect H1:22E results, though the rebuilding of properties and refitting thereof may see a *boost* to demand (particularly in Lighting and in some electrical accessories) in H2:22E, such that the final effects are impossible to forecast. Also, there remains a risk that these riots flare up again, though the current political will of the Government is strongly opposed to this and any resurfacing should (hopefully) see a much swifter and harsher response.
    - **COVID-19**: Figure 2 shows that the world entering the 3rd-wave while South Africa has (so far) successfully passed this wave's peak. While vaccines appear to have dulled the mortality effects of COVID, the disruptive effects—both to supply chains and overall demand and economic activity—remain hard to quantify. Likewise, any future waves, mutations, & vaccines benefits are near impossible to quantify or forecast at this point.
    - **Lockdown-induced global recession**: Strongly related to the above note on COVID, a key variable is how global Governments respond to the 3rd and any subsequent waves. Harder lockdowns will see deep drawdowns in economic activity and more severe disruptions to supply chains. Likewise, the opposite remains true. One would logically expect lockdown reactions to future waves to become "smarter" and less economically onerous as vaccines benefits offset infections and mortalities, but this logic may not hold.

Figure 2: COVID-19 Daily Cases

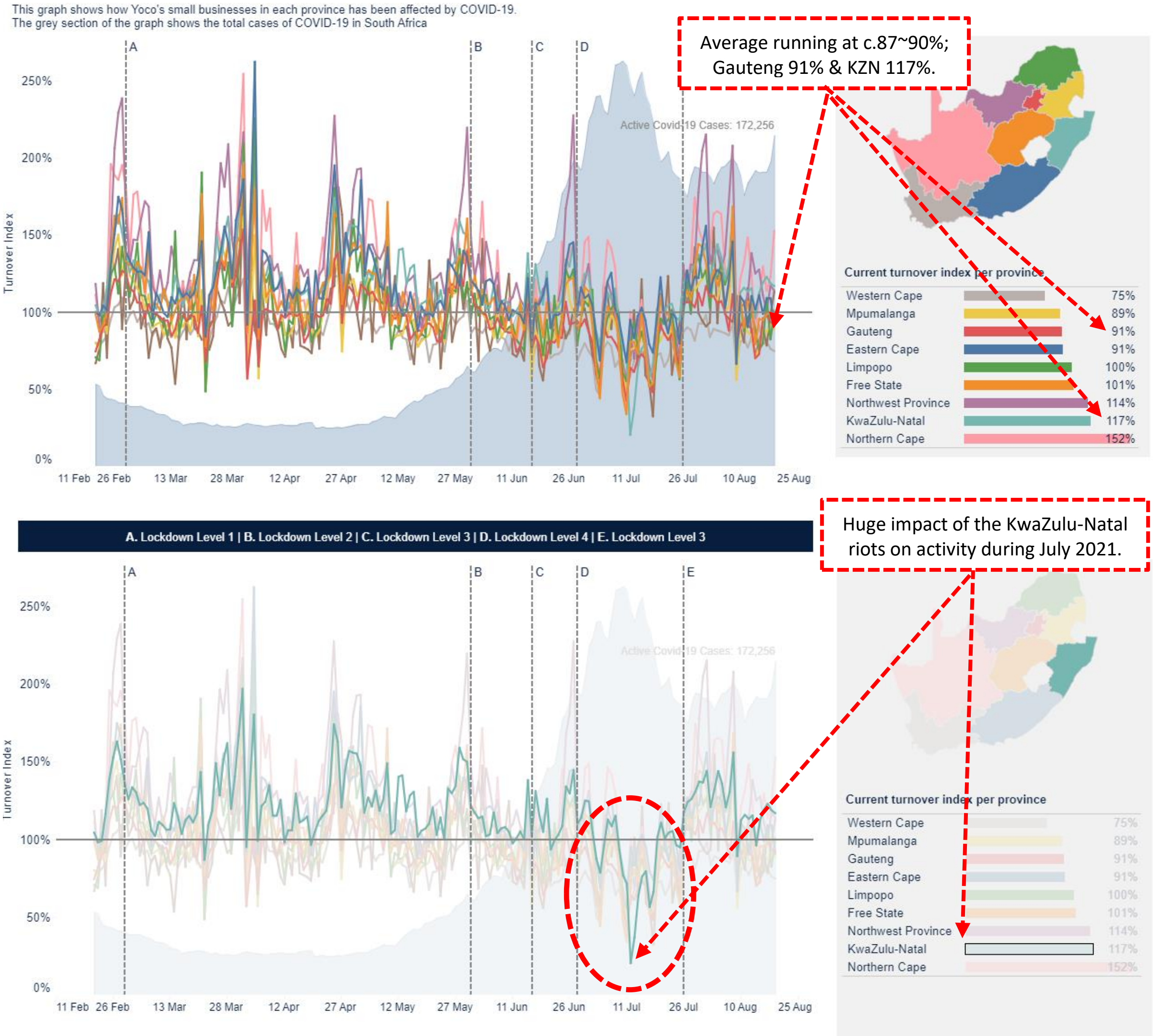


Source: Google (21 August 2021)

- Finally, we are going to revisit our "real-time" data proxy, 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 on their website: LINK.
    - This data is skewed towards card transactions (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 most 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:
    - Overall activity has fallen from near-100% at interim period to its current c.87~90% range as the 3rd-wave and domestic lockdown level has dampened activity somewhat. This is more weighted towards Gauteng (at c.91% of its activity level) and KwaZulu-Natal is *higher* (c.117% its activity level). This latter point is important for ARB Holdings as the Group's business is traditionally weighted more towards KwaZulu-Natal having been founded there.

- If we specifically zoom into KwaZulu-Natal, the large impact of the riots on this province's activity level can be seen as Yoco payments dropped to a trough of nearly zero during July 2021, albeit this has subsequently recovered (c.117% of activity level as it probably plays catch-up with delayed demand).

Figure 3: Yoco Payments Monitor (as of 21 August 2021)



Source: Yoco.co.za

- Finally—though we have repeated this *ad nauseam*—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).

Forecasts

Revenues and profitability

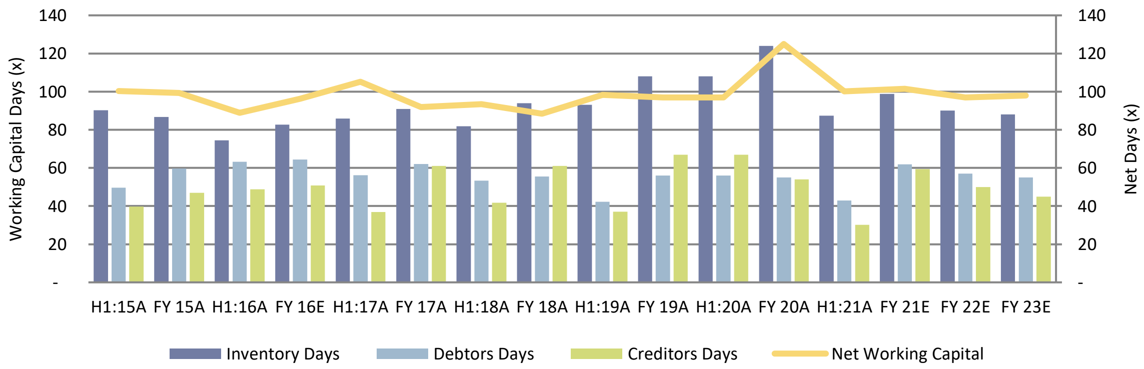
- We were surprised to the upside by FY 21 and see this flowing in FY 22E and, even, FY 23E.
- Albeit, the potentially weaker H1:22E (from the impact of the riots) may be offset by a stronger H2:22E (as properties are rebuilt after being damaged by the riots), which could add some volatility into the coming interim results.

- Likewise, lockdowns and DIY-related tailwinds have created a high base year in FY 21, but indications are so far that the 3rd-wave has passed, and that consumer spending remains buoyant and, unless these factors change, we see this high-base being maintained.
- In terms of margins, we expect some gross margins to lower as stock availability improves while operating margins should be maintained due to prior periods' efficiency gains holding. The Rand-copper price volatility creates risk on this assumption from the Electrical Division and remains hard to forecast with any certainty, albeit the Group's excellent working capital management is somewhat of an operational hedge against this risk.

Liquidity, solvency and assets

- While the Group's working capital moved out of management's target range (20% to 25% of revenue) during FY 20, this proved to be advantageous from a stocking perspective and has been well-capitalized on by management.
- The winding down of stock levels has seen this ratio pull back into management's target zone and we do not expect it to change dramatically going forward, albeit there should be steadily incremental efficiency gains from Lord's View (i.e. slowly falling Inventory Days ratio) as the Group beds down this tactical asset.
- The Group's balance sheet remains very liquid and comfortably solvent, and we do not expect this to change over the forecast period.

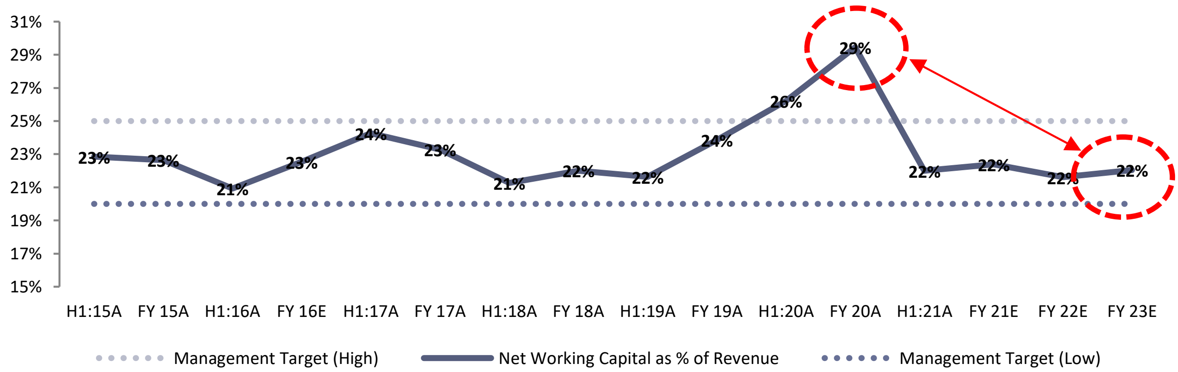
Figure 4: Working Capital History of ARB Holdings



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 FY 21. We expect this target range to be maintained into the foreseeable future.

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 17.2% (previously: 16.8%) 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 weakening of the 10-year South African bond yields that have recently dropped to c.9.0% (previously 8.5%).
- Growth rates of the following:
    - FY 22E & FY 23E: per our forecasts in this report,
    - FY 24E to FY 26E: 8.5% y/y (4% real and c.4.5% inflation), and
    - Terminal Year: 8.0% y/y (3.5% real and 4.5% inflation) – see note below.
- Finally, we take out an effective estimate of the minority interest of c.9% (previously: 10%) from the Group.

Table 3: DCF Model – ARB Holdings

	FY 21A	FY 22E	FY 23E	FY 24E	FY 25E	FY 26E	Terminal Year
EBITDA	300	350	369	400	434	471	552
Less: Tax	-73	-86	-90	-98	-106	-115	-135
Less: Working Capital	39	-21	-22	-24	-26	-28	-33
Less: Capex	-121	-58	-61	-66	-72	-78	-46
Free Cash Flow (FCF)	144	186	196	212	231	250	339
Discounted FCF	-	159	143	132	122	113	814
NPV (Enterprise Value)							R1,587m
Add: Net Cash							R109m
Fair Value, inc. Minorities (Rm)							R1,696m
Fair Value, ex. Minorities (Rm)							**R1,536m**
Fair Value of ARB shares (cps)							**654cps**
Implied Price Earnings (x)							*7.9x*
Discount to Fair Value (%)							*17%*
12m TP (cps)							**766cps**
Exit Price Earnings (x)							*8.0x*
Implied Return (%)							*37%*

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

- We arrive at a fair value of 654cps (previously: 631cps) on an implied Price Earnings (PE) of 7.9x. The uplift has largely been driven by strong financial performance and raising our expected growth rate.
- Rolling this fair value forward at our CoE implies a 12m TP of 766cps (previous 12m TP: 737cps).
- **Note:** The Terminal Year growth rate of 8.0% is made up of the following:
    - 4.5% inflation assumption (previously: 5.0%), &
    - 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 history 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**: 619cps (i.e. c.5% lower than the above), &

    - **DCF 12m TP**: 725cps (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.

Enterprise Value/EBITDA (EV/EBITDA) Model

- We have selected Cashbuild (code: CSB), Italtile (code: ITE), Reunert (code: RLO) and Bidvest (code: BVT) to build a market-based peer comparison. We acknowledge that the basket is not perfectly comparable to ARB, but we believe that these individual businesses and their performance *are* correlated with the various business drivers that influence ARB's own businesses, and, thus, we believe this basket can be used to derive a market-based relative valuation for the Group.
- Based on this, we expect a similar-sized peer to trade at c.8.4x EV/EBITDA.
- We have taken a 40% discount out of this market-based multiple to account for ARB's smaller size and less liquid script, thus arriving at an implied EV/EBITDA of 5.0x for the Group.
- 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	6,967,159,306	-1,215,000,000	5,752,159,306	1,152,643,000	5.0x
Italtile	21,146,466,368	-1,100,000,000	20,046,466,368	2,261,000,000	8.9x
Reunert	9,311,349,326	-224,000,000	9,087,349,326	1,174,000,000	7.7x
Bidvest	67,918,759,461	15,800,000,000	83,718,759,461	7,000,000,000	12.0x
Average					**8.4x**
Less: Discounts					-3.4x
- Small Cap Discount (20%)					*-1.7x*
- Illiquidity Discount (20%)					*-1.7x*
ARB's Implied EV/EBITDA (x)					5.0x
ARB's 12m EBITDA				323,855,000	
Hence, ARB's EV			1,630,136,834		
Add: Net Cash		109,446,000			
Therefore, ARB's Fair Value	R1,739,582,834				
Fair Value (cps)	**740cps**				

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

- Hence, per our EV/EBITDA analysis, ARB's fair value should be 740cps (ignoring minority interests ~ a c.9% effective minority would take this down to c.673cps).
- The large gap between this fair value and the 654cps fair value implied by our DCF valuation may indicate that our forecasts are conservative.
- At the very least, it does indicate that the expectations priced into these selected listed peers have not yet trickled down into ARB's rating in the market and implies upside potential from here in the Group's share price.

Valuation, 12m TP and Implied Return

- We reiterate our preferred valuation methodology as the DCF, therefore implying that our fair value for ARH is 654cps (previously: 631cps) on an implied Price Earnings (PE) of 7.9x.
  - This fair value implies that ARH shares are c.17% undervalued at current levels.
  - This view is further backed up by our EV/EBITDA model's fair value of 740cps.
- Rolling our fair value forward at our CoE, we arrive at a 12m TP of 766cps (previous 12m TP: 737cps).
  - A 12m TP of 766cps places the share on a fair Exit PE of 8.0x.
  - Our 12m TP also implies a return of c.37%.

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; & any further social unrest, rioting or relating disruptions,
- 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 closing price on during 20 August 2021 (550cps).*

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