

ARB Holdings Ltd Offer to Minorities & Proposed Delisting

Share Code: ARH – Market Cap: R1.8bn – PE: 9.3x – DY: 4.3%

Offer Price	800cps
Share Price	760cps
Implied Return	5%

Industrials | South Africa

Offer to Minorities & Proposed Delisting

- A company owned by [Masimong](#) (50.1%-shareholding) and [Sabvest](#) (49.9%) has made an offer to minority shareholders (other than the Burke Family that collectively holds 62.9% of ARB's shares) to acquire their shares for cash of 800cps.
- If the scheme is approved by shareholders (75% vote is required) & goes ahead, ARB will also be delisted from the JSE.
- Besides the usual conditions/clauses & the approvals needed, the scheme currently has irrevocable support of 69.41% of shareholders (that can vote at the scheme meeting, i.e. "disinterested shareholders") and, thus, we view it as highly-likely that this transaction successfully conclude.
- See the full announcement here: [LINK](#).

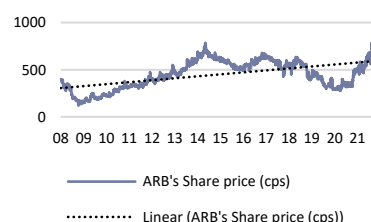
Previously Published Valuation: Justifies Offer Price

- In our [previously published FY 21 results piece](#), we saw fair value as 654cps on a Price Earnings (PE) of c.7.9x, which is hardly demanding given the quality of the underlying businesses and did imply some upside risk to this view.
- Our EV/EBITDA-implied fair value of 740cps adds weight to this view of fair value and its upside risk.

Our Thoughts: Fair Premium & Well-supported Offer

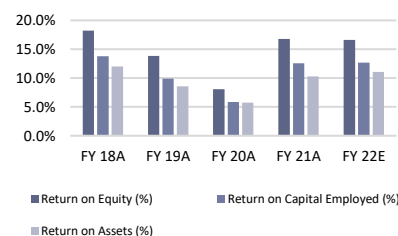
- Given our view of ARB's fair value, the 800cps offer price for minorities comes in at a c.22% premium to this (not counting the even larger premium against the pre-offer share price).
- The offer is pricing a material minority stake. The Burke family will remain in control post-delisting and, thus, this offer should not include a classical "control premium" as control is not, in fact, being acquired. Thus, we consider this offer price to be quite fair and, likely, attractive to minorities.
- This view is backed up by the large number of irrevocables secured (including institutional investors and former insiders). These irrevocables (totalling c.69.41% of shares able to vote on this deal) furthermore imply the likelihood of this deal successfully concluding as quite probable.

ARB's Share Price History (cps)



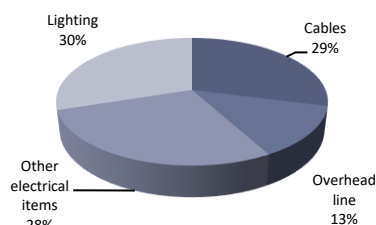
Sources: Bloomberg, Blue Gem Research

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



Sources: Bloomberg, Blue Gem Research

ARB's Segmental 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)	13.2x	-	12.8x	-	9.3x	-	8.0x	-	7.5x	-
DPS (cps)	25.0cps	-29%	-	-100%	42.5cps	>100%	38.4cps	-10%	40.7cps	6%
Dividend Yield (%)	3.2%	-	0.0%	-	5.5%	-	5.0%	-	5.3%	-

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



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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%
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%
<i>Gross Profit Margin (%)</i>	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%
<i>EBITDA Margin (%)</i>	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%
<i>Dividend Yield (%)</i>	3.2%	-	0.0%	-	5.5%	-	5.0%	-	5.3%	-
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%
<i>Cash Conversion Ratio (%)</i>	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%	-
<i>Price Earnings Ratio (x)</i>	13.2x	-	12.8x	-	9.3x	-	8.0x	-	7.5x	-
<i>Current Ratio</i>	2.5x	-	3.1x	-	2.8x	-	3.1x	-	3.5x	-
<i>Quick Ratio</i>	1.2x	-	1.4x	-	1.6x	-	1.8x	-	2.2x	-

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

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** Market prices in this report predominantly set to a Closing Price on during 4 February 2022 (760cps).*

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