ARGENT INDUSTRIAL

# A change of sentiment?

## The proposed share buy-back is well timed but the operating environment is difficult

The timing of share buy-backs will always be a contentious issue. Directors promulgating such an exercise are unlikely to pick the very lowest point of the share price to execute the buy-back. In fact, some high-profile share buy-backs (Anglo American, for instance) were, with hindsight, badly timed and costly to shareholders.

Indeed, the merits of proposing share buy-backs over special dividends and acquisitions have been hotly debated.

These days there is a growing sense that while share buy-backs should technically enhance earnings and value, directors should be worrying less about the company share price and more about directing surplus capital back into the pockets of shareholders or buying into new opportunities that reinforce future growth prospects.

**WHAT IT MEANS**

**SHARES DISCOUNTING NAV**

**OPERATING IMPROVEMENTS EVIDENT**

A recent share buy-back proposal by steel beneficiation and engineering conglomerate Argent Industrial, however, probably won't find too many detractors.

In fact, long-suffering shareholders may well be relieved since their persistent calls, in recent years, for the company to buy back shares seemingly fell on deaf ears.

Argent will commence its share repurchase programme after it releases its results for the year to end March next month. Directors probably had a change of heart around the share buy-back after watching the share price continuing to dribble down despite some arduous restructuring efforts.

Maybe directors also noted institutional asset managers Allan Gray (20%), Sanlam (15%) and Kagiso Asset Management (10%) accumulating influential stakes in the business — the kind of buy-in that might add a sense of urgency to plans to unlock value for shareholders.

The company will repurchase its shares in tranches of 3% of the number of shares in issue, each time detailing these exercises to shareholders. Argent has the authority to buy back as much as 20% of its issued shares.

The timing could hardly be better, for at least three reasons:

- The share is down around 30% from a 2015 peak of 570c, and was at the time of writing trawling at a five-year low of 400c.
- Current prices represent a massive discount to Argent's last stated net asset value (NAV). At the end of the interim to end September, Argent reported NAV at R12,69/share.

The *Financial Mail* estimates tangible NAV to be closer to R10,90/share, but "fair value" — considering the tough industrial sectors where Argent plies its trade — is probably markedly lower. Analyst Rob Baker of InvestSouthAfrica suggested late last year a fair value range between 650c/share and 750c/share.

- Argent is flush after selling of a number of industrial properties for R72m. A recent trading update showed that other properties were still up for sale: Giflo Engineering in Ga-Rankuwa (via auction later this month at a reserved price of R10,5m) and a vacant property in George (R6m). It means the share buy-back won't come at the expense of dividends, or stymie potential acquisition opportunities.

Jackie Clausen

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**OPERATING UNHINDERED AMID A LABOUR DISPUTE IS EASIER IN THEORY THAN IN REALITY**

TREVE HENDRY

The buy-back also coincides with two important operational developments.

A recent trading update showed headline earnings for the year to end March 2015 would come in between 15,3c/share and 18,3c/share, which would mean the bottom line will be between 5% and 25% higher than the previous financial year.

Argent points out that the pretax results would have increased by another R74m if Argent had not been smacked by the countrywide industrial strike action in July 2014 as well as impairments in its automotive division.

The impairments stem from rather nasty developments at Giflo Engineering, where Argent directors appear to have pulled the plug on these low-margin "bakkie accessory" operations after a prolonged and violent labour dispute.

Argent CE Treve Hendry, one of the toughest operators in industrial SA, notes the company has reserved its rights against trade union Numsa and has obtained a court interdict to allow it to operate unhindered. But he adds that this is "something which is easier documented in theory than it is in reality".

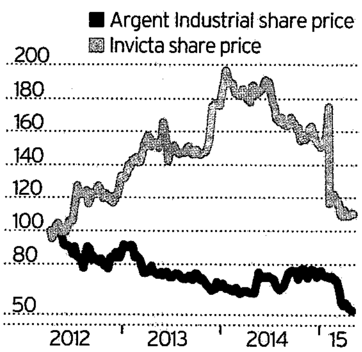
It's perhaps, in a strange way, reassuring that Argent is contemplating a sizeable share buyback when directors have been rudely reminded of just how fractious labour relations can be in the local industrial sector.

Still, unlocking Argent's underlying value through the disposal of noncore assets and streamlining the operating profile to focus on higher-margin offerings might also be easier in theory than in reality.

The prevailing industrial landscape is hardly hospitable, with an increasingly uncompetitive labour environment, a

**DIVERGENCE**

Based to 100

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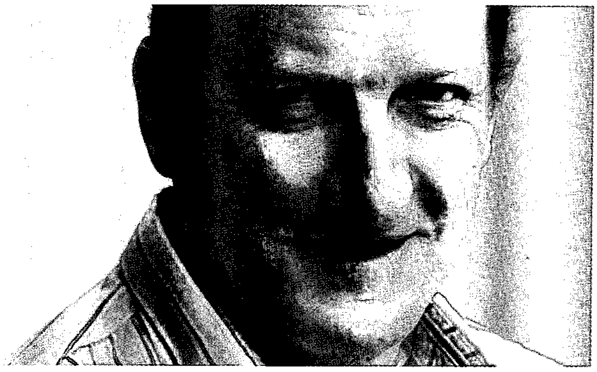

# Cheap shot

## It's a great time for a commodity trading giant to buy Metmar. But is it time for shareholders to resist these advances?

The response by several smart institutional investors to the proposed buyout offer at metals trader and commodity group Metmar should be rather fascinating to gauge. Traxys, a global metal trading conglomerate with annual sales of over US$6bn, last week bid 110c/share to buy out a rather forlorn looking Metmar. The shares, these days, are well off those 400c-500c ranges from four years ago.

The proposed offer — which values Metmar at around $25m — looks like a little flutter for the sprawling Luxembourg-based Traxys.

It's arguably a convenient time in the commodity cycle to be taking a small bet on a resources trading house. But to a few of my acquaintances — always keen to bend my ear about a nifty value proposition at Metmar — the 110c/share offer will hardly touch sides. Certainly the offer does not seem to take into account the much vaunted longer-term upside potential of the business that my excitable acquaintances have prattled on about for so long. One then has to ask whether enthusiastic small cap punters completely misread Metmar?

I ask because it seems the offer from Traxys — which is below Metmar's last stated intrinsic net asset value of 135,5c/share — is being recommended, after independent scrutiny, as fair and reasonable to shareholders.

The proposed deal also already has the support of a handful of directors who are meaningful shareholders — including CE Doug Ellwood. In fact, the transaction already has the support of holders of 52% of Metmar's issued shares. The directors who are now willing to offer up their shares are the same directors who said late last year that the business was "appropriately resourced and structured to deliver on our strategy". In their outlook comments accompanying the interim results to August, directors even dangled a juicy corporate action carrot — noting "many mines and commodity trading companies are not sustainable at these reduced commodity prices and hence natural attrition has prevailed, which provides opportunities for the company".

What was conspicuous in its absence from the buyout offer statement was the support of larger institutional shareholders — including PSG Asset Management (which only recently bought a 5% stake), Flagship, ClucasGray and Coronation. Now I suspect the institutional shareholders will take a few days to digest the offer details before deciding whether to accept Traxys' advance or put up a fight.

Under normal circumstances, I somehow doubt the institutions would accept an opportunistic offer pitched below intrinsic NAV — especially after Metmar has undergone some hectic restructuring to reposition the business for a swing in the commodity cycle(s). But then surely neither would directors, all with substantial shareholdings, capitulate to a buyout offer after doing the hard yards in reshaping Metmar over the past few years?

As far as I can see — and the devil may well be in the full offer circular — the directors are not party to any special arrangements that have been tagged to the Traxys offer. I suspect there is a big clue in the rationale offered for the deal.

I specifically refer to Metmar pointing out that the Traxys deal would increase the company's funding pool and reduce the cost thereof through economies of scale. In addition, there would also be improved access to funding facilities available in a variety of major currencies.

Presumably, Metmar was finding that financing its activities was a bit of a strain. Naturally, being part of a $6bn empire with (presumably) a muscular balance sheet would alleviate any punitive financing arrangements. Still, could there be another way around the financing constraints — surely made worse by prevailing trading conditions? The potential upside can't just be heaved over to Traxys for a song?

For instance, would institutional investors prefer to remain invested in Metmar for the longer term — even if it meant forking out for a relieving rights issue? ■

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