

Billion rand in the making



"We make it, we deliver it, we service it and we're there for more orders", is how Argent Industrial Limited's CEO, Treve Hendry, describes the R600-million-a-year Argent Industrial Limited, the share price of which has increased nearly fivefold under his five-year tenure.

When Hendry took over the leadership of the 10-year-old Argent that grew out of the old Scharrig Industrial Holdings Limited, it was employing 300 people; today it employs 1 216, much of the increase the result of strong export performance.

An indication of Argent's satisfactory level of profitability is that its after-tax bottom line for the year to March 2004 was at R60-million, representing some 10% of turnover.

Its share price on the JSE Securities Exchange was 395c at the time of going to press – 4,7 times more than the 84c when Hendry assumed office in 1999.

The group then had seven operations; it now has 17 – 16 in South Africa and one in the US, with an 18th on the way.

But it is not only quantitative growth that is developing Argent into a wealthy group of businesses, but also vigorous organic growth within each of the operations that has given Hendry confidence that the billion-rand-a-year turnover target he has set for the group will be attained in two years.

Though Argent group steel company Phoenix is the group's central pivot, both fireplace manufacturing acquisition Jetmaster and automotive-parts manufacturer Giflo Engineering have infinite export horizons and both are growing like Topsy.

Phoenix, which buys some 6 000 t of steel a month, not only trades the steel on the open market, but also supplies substantial quantities to many of the Argent operations, which, in turn, add considerable value to the steel.

An example of the magnitude of organic growth is Giflo Engineering's ninefold turnover growth to R11,7-million a month from R1,2-million a month five years ago.

The next time you find yourself driving on the road behind a bakkie, take a look at the steel back bumper because it is almost certain to be an Argent group product.

This is because Giflo supplies virtually all bakkie back bumpers and also a large volume of rollbars and nudge bars.

From 2005, Giflo will also supply the sidesteps on Toyota bakkies and currently supplies Isuzu's nudge bars as well.

While Giflo supplies the low-line steel back bumpers to General Motors in Port Elizabeth for the new Isuzu bakkies, its Argent group associate company, Excalibur, supplies the aluminium high-line back bumpers. Normally, detailed automotive industry planning keeps delivery schedules on an even keel, but an example of an aberration has come in Argent's supply of vehicle accessories to Land Rover in the UK.

With Land Rovers in widespread use in war-torn Iraq, Argent had to meet a recent sharp rise in demand by flying out parts to the UK that are normally transported by sea.

Every Land Rover 90 has the company's safety-belt bulkhead deletion – the mounting head for

the belt – and every Land Rover 110 its sidesteps and under-riders.

Giflo also supplies Renault in France, three different companies in the US with after-market and original-equipment product and has several tenders in to Rover, in the UK.

Bug shields for the US, that are meant to push bugs over the car with- out them squashing on the windscreen, are made in stainless steel, laser cut by Excalibur and pressed at Giflo, for fitting on to the noses of Nissan special utility vehicles. The company is also awaiting the outcome of a direct tender to General Motors in Detroit, US, for a contract that would be worth \$4-million a year in its initial stages and \$10-million a year later, an example of the magnitude of the opportunities presenting themselves to the Argent group company in the automotive market.

“Once you have the tools right, the samples right and the quality right, quality systems make the running of export contracts pretty much routine,” Hendry confides to Engineering News in an exclusive interview at the company’s main offices in Argent Park in Marais-burg, Roodepoort.

Colleagues attest to Hendry being unshy to don the salesperson’s hat on big-ticket tenders.

In fact, it was Hendry the salesperson who clinched the company’s first automotive order from the US, placed by Reliable Automotive of Kansas City in 2000.

He is a 37-year-old chartered accountant with a difference; in fact as different as an open-neck shirt is from a suit and tie.

He travels 10 000 km a month in his Land Rover visiting Argent’s 17 operations.

Forthright in the extreme, he replies to questions containing corporate jargon with a high degree of irreverence.

But ask him anything about any one of Argent’s businesses or its products, and he responds in loquacious detail.

He declares himself ready to change direction at the shortest of notices – “with the wind if necessary” – provided it makes money.

“We don’t have an MBA committee of ten sitting somewhere in a cupboard,” he guffaws, stressing that there are only 350 official working days in a year to beat the performance of the previous year.

Five years ago, without his dilettante management style, the group turned over R200-million; with it, it turned over R640-million in the financial year to March 2003.

But he makes mistakes.

An example is his hopeful entry but desperate exit out of project management and materials handling, losing R140-million in turnover in the process, but quickly taking Argent back up to its current R600-million-a-year level – and climbing.

A source of pride is that the group is performing well off its hard core of real-time, ongoing engineering that he forecasts will take it into the billion-rand-a-year turnover bracket by 2007.

The son of a Cornish mining engineer who ran a coal-mine for a large South African mining house, Hendry’s colleagues report that he puts in 12-to-18-hours-a-day Mondays to Fridays.

But then long hours seem to be the norm at Argent, where financial director Sue Cox reportedly invariably starts work at 5 am; on the day Engineering News interviewed Hendry, he had been on

the phone to new business development director Marc Antonic at 6.30 am and all the operational heads before we got to him at ten in the morning.

Hendry speaks to operational management a half-a-dozen times a day and he finds that members of the team are invariably at work from around 6.30 in the morning till seven at night.

Hendry regards his biggest-ever business opportunity to date as being the purchase of Jetmaster, a ubiquitous brand that, he says, effectively “came for free”, with the acquisition paying for itself in three months.

Though always on the lookout for organic and acquisitive growth opportunities, he is a stickler for the retention of low gearing, currently at 25%.

Decisive, he relocated rail retarder company Joules Engineering – formerly of Sebenza, Edenvale – to Kansas City, US, when the company was cold-shouldered “because of its whiteness” by local rail parastatals.

He is an obsessive believer in a meritocracy, placing South Africans of all colours in leading positions strictly on the basis of incumbents being the best people for the job.

He doesn't have a corporate office as such: “There are Sue Cox (financial director), Nesta Glover, (company secretary), Delyse Jacobs, (human resources) and myself,” he insists, stressing that full emphasis is placed on the operations, where the wealth is created, with corporate controlling only capital buying, financing and salaries.

His one and only memorandum to staff this year was again one with a difference that reflects his swashbuckling style: it warned personnel that all unanswered cellphones would be assumed broken and that new ones would be bought for those who failed to answer them, with the cost of the phones being deducted from salaries; most have since begun answering more promptly.

Hendry takes accounting very seriously, insists that the company's record-keeping is top notch and sees himself as being very good at asset management. Whenever crucial decisions affect an operation, he visits the operation and decides a course of action with the operation, at the operation – and is dead against doing it at a meeting in a remote corporate boardroom.

He picks up most of his growth ideas during visits to the operations, advances the ideas to their next logical level and then follows up regularly to bring them to fruition.

While Engineering News sat with Hendry, he drew up a rough graphic to show the workings of the Argent group; the drawing proving a study in multidirectional intra-trade, operational bolt-ons and criss-crossing transport routes taken by Argent's fleet of 41 trucks (see diagram).

This is because Jetmaster has been bolted on to five Phoenix Steel facilities; Excalibur to group diesel engine repairer NWN in Pinetown, Phoenix Steel East London, Phoenix Steel Port Elizabeth and Jetmaster Cape; and Giflo to Phoenix Steel East London.

The pace of business is so brisk that Jetmaster, Excalibur and Bavarian Metal Industries (BMI) are working three shifts; Hendor Mining Supplies may also be placed on a third shift soon and ready-mixed concrete business Megamix, of the Western Cape, is on double shift.

Argent's motivation in acquiring Jetmaster three years ago was, firstly, to obtain a well-branded product that could be grown exponentially and, secondly, to provide Phoenix Steel Gauteng with yet another group steel customer.

Hendry sees Jetmaster's growth prospects as being limited only by the company's ability to financially gear, with exports growing into Australia, New Zealand and the UK.

Argent owns the Jetmaster brand throughout the world, except in the European Union (EU) and the UK, where it resides with the original owner.

As strong branding of Jetmaster has not taken place in the EU, Argent may decide to enter the EU under a name other than Jetmaster, but the aim is first to grow its position in North America.

Jetmaster is best known in Commonwealth countries where there are cold winters and in Zimbabwe.

In some areas it uses existing distributors and in others it opens its own distribution networks.

Jetmaster is in the process of introducing a modern new barbeque that will substitute the R10-million-worth of existing barbeques that it has made in China each year, Jetmaster and Excalibur combining to manufacture the new barbeque, which is part steel, to be supplied by Phoenix Gauteng, part aluminium pressing, to be supplied by Excalibur, and part tube, to be supplied by Giflo. Launch date is January 2005.

The heating technology for the new barbeque will be patented before its entry in the US, owing to patent holders being able to sue the distributing company in the event of copyright infringement.

Before Argent acquired Jetmaster, very few modifications were done to Jetmaster's 54-year-old design, but in the last three years, fruitful modifications have been extensive, in order to counter strong criticism from global customers.

For instance, users can now ignite Jetmaster fireplaces from the comfort of their lounge sofas using a handheld remote that enables them to turn the units on and off, raise and lower heating levels, with retrofitting to existing Jetmaster units possible, depending on the model.

To accelerate growth, Hendry is putting Jetmaster distributors under pressure, exemplified by the fact that the day before he was interviewed by Engineering News, he ticked off a distributor after finding on a surprise visit that he closed his shop early.

Jetmaster is opening two of its own distributorships in Kwazulu-Natal, where it is experiencing a substantial increase in demand and where an offer for a stand in the Gateway shopping complex in Umhlanga Rocks has been submitted.

Jetmaster showrooms, modelled on the out-standing example at Argent Park, in Maraisburg, have been built around the country.

The most pervasive and predominant segment of Argent remains Phoenix Steel Gauteng, and its five satellites, four of them at the coast. Because of in-group selling, Phoenix can turn over as much as R30-million in a month, but only R18-million of that may be externally-traded turn-over and the rest internal turnover, which is a source of chagrin to fund managers and analysts.

He cites the reason for Argent never having had a price-earnings (PE) ratio above four on the JSE Securities Exchange as the fact that analysts and fund managers are "driven crazy" by Argent's propensity for multidirectional intra-company trading; analysts want disclosure on what each individual company within the group makes individually, something Hendry is reluctant to divulge for fear of harming the individual businesses.

He believes that full disclosure would harm the export markets of both Jetmaster and Giflo, which together represent 17% of total group turnover. On the basis of the whole always being far greater than the sum of its individual parts, he believes the market should reflect the current interlocking within Argent as a plus, which would lift the company's PE ratio. Argent's main operation, Phoenix Steel Gauteng, supplies its various satellite operations made up of Phoenix

Steel Natal, of Pinetown, which has a single guillotine and is purely a steel trader; Pallisade Trading Richards Bay, which has two profile machines, two guillotines and a bending brake and is the only Phoenix company that sells reinforcing bar because of particular demand in the Richards Bay area where there is intense construction growth; Phoenix Steel Middelburg and Phoenix Steel East London.

Steel comes in from the Iscor mills to Phoenix Steel Gauteng in Wadeville, Germiston, where it is cut to length, slit, traded on the open market and sent to the various Phoenix branches; the Gauteng operation has also just commissioned a second tube mill. Jetmaster buys a considerable quantity of steel from the Phoenix operations in East London, Richards Bay, Middelburg and Port Elizabeth, which, in turn, also manage the sale of Jetmasters.

The upgrading of Phoenix Gauteng's machines has provided lower-tolerance advantages for Giflo and its new 20 t cranes' entry into heavy sections, which immediately give the company a larger market share in the Richards Bay area. The thriving Giflo Engineering also buys steel from Phoenix Steel Gauteng and sells various automotive parts to big-brand vehicle assemblers including DaimlerChrysler in East London, General Motors in Port Elizabeth, Ford and Nissan in Pretoria, Toyota in Durban from next year, Land Rover in the UK and General Motors in the US.

Giflo buys most of its piping from Bosal, owing to the piping produced by Phoenix being primarily for the transport of fluids.

Through Phoenix East London, Giflo supplies nudge bars, rollbars, back bumpers and sidesteps for the Colts on a just-in-time (JIT) basis. Argent, which has a fleet of 41 trucks, does the JIT transporting in its own trucks, which travel from Giflo Engineering in North West Province to DaimlerChrysler's East London factory, in the Eastern Cape.

Argent company Excalibur Vehicle Accessories buys aluminium from Hulett Aluminium, which Hulett procures in billet form from BHP Billiton, melts under pressure and extrudes into sidesteps, which Excalibur cuts to size, treats and sells into both the original-equipment and after-markets.

Excalibur sells large quantities of aluminium sidesteps to South Africa's taxi industry and Hendry is looking to the anticipated rollout of the government's multibillion tax recapitalisation programme to provide a fillip for Excalibur, whose sidesteps are on the Mercedes-Benz Sprinter.

Excalibur's expansion into stainless-steel nudge bars and sidesteps is expected to be in full swing by September.

Hendry describes Excalibur's export prospects as being negligible because of Hulett's high price levels creating an anti-export bias of some 20%.

Excalibur buys steel brackets from Phoenix Gauteng which are supplied JIT to DaimlerChrysler through Phoenix East London. Phoenix East London has a ramp that allows Excalibur to obtain a share of the after-market fitment business and a similar ramp is being installed at Phoenix Port Elizabeth to do the same thing.

Hendry expects more of the vehicle accessories market to move towards aluminium, mirroring the position in the US, where aluminium is increasingly providing better aesthetics and lighter weight to vehicles.

Argent company Bavarian Metal Industries (BMI), which is primarily a jobbing shop for the group that is equipped with profiling machines and steel fabrication facilities, buys all its steel from Phoenix Gauteng for the production of truck tipper bodies and for general fabrication of parts for Giflo, Excalibur and Jetmaster and the supply of cold-form sections to all the Phoenix outlets. Argent company Koch Cut & Supply, of Pinetown, is a quick-response just-in-time jobbing shop run by the founder, Frikkie Koch, and, in addition to its current business, will facilitate and

coordinate JIT supply to Toyota from 2005 on Excalibur's behalf.

Koch Cut & Supply buys all its steel from Phoenix for fabrication similar to that of BMI, though at a far higher level of sophistication.

NWN Automotive Precision Engineering, also in Pinetown, remanufactures diesel engines and has an Excalibur ramp, again to facilitate after-market fitment business.

NWN's growth prospects are constrained by the 100 000 km guarantees and five-year maintenance contracts of most new vehicles, which result in diesel engine blowouts being less frequent and also the practice of large fleet owners of trading-in their trucks at the point of the expiry of maintenance contracts. NWN operates an engine-collection service for the heavier range of diesel engines used in off-road construction industry vehicles and has established a black economically empowered partnership in the submission of its tender to Portnet, for the refurbishing of the diesel engines on harbour tugs and the large forklift trucks.

Argent group company Megamix, in the Western Cape, is a trucked ready-mixed-concrete business, which has its own long-life stone quarry at Villiersdorp and buys its cement from Barloworld's PPC, the Western Cape's sole cement supplier.

The 17-vehicle Megamix has three batch plants, one in Helderberg, another at Cape Town airport and the third in Cape Town's city centre, and also manages Jetmaster Cape.

Hendry sees South Africa's 2010 Soccer World Cup victory as enhancing prospects in the construction business, placing both Megamix, as a ready-mixed concrete supplier, and Phoenix Gauteng, as a heavy structural-steel-sections supplier, in specially favourable positions.

He regards the sale of ready-mixed concrete as being very much like the selling of steel in that competitors each sell identical products, placing the emphasis on quick delivery using company truck fleets.

Moreover, the Villiersdorp quarry has just won a contract to supply stone to a dam-building project, for which two articulated dump-trucks are being bought.

Argent's Hendor Mining Supplies, which buys all its steel from Phoenix Gauteng for the production of underground mining scrapers, used in narrow-vein gold, platinum and chrome mining, has 60% of South Africa's underground scraper market.

Though mining's decline under the constraints of onerous new macro-economic parameters has lessened demand for Hendor products, the company remains a sound, all-steel business, with the winch-powered scraper a relatively short-life consumable that never returns to surface once taken underground.

Though scrapers are exported to the Zambian Copperbelt, their bulk, low value and low technology render exports to potential South American markets unattractive.

Hendry has discovered that Argent is competitive in the field of JIT logistics and that what is critical to any kind of logistics business is to keep the trucks as full as possible and moving.

Traditionally, JIT delivery has been the preserve of specialist companies that charge a logistics fee for transport and a delivery fee for JIT.

Argent, however, is taking that market share away from the traditional JIT service providers in the case of its contracts with DaimlerChrysler in East London, and aims to do the same with General Motors in Port Elizabeth and if it wins the contract for which it has tendered to Toyota in Durban.

What the company is able to do is also to transport Jetmasters and steel on the JIT truck when there is downtime and thereby recoup the investment on its 41 Mercedes-Benz rigs, which do the return trips filled with pallets that have to be returned to Giflo for reuse.

Argent, which owns R55-million- worth of property, believes in owning the properties on which group companies operate, though Hendry concedes that the practice raises gearing levels by locking up money that does not yield an income per se.

But he argues that, with the passage of time, the group's property ownership ensures an absence of cost escalation and provides latitude to property adaptation and modification to suit changing operational needs.

While Hendry concedes that, in the initial years after property purchase, a business may be better off without it, he calculates that as the years go by, it becomes in the company's best interests to own them.

Also, if ever the group needs to do something exceptionally big, it could offload its properties to raise capital.

Hendry's motivation in extricating Argent from Barker Flynn and its project-management and materials-handling activities was that he was having to risk the company's entire property portfolio, buildings and process equipment to obtain a 5% return.

Because of the risk-to-reward ratio being out of kilter, he moved quickly to shed Barker Flynn; the final parting of the ways having reached a stage of virtual completeness at the time of Engineering News's interview.

When new operations are spawned, payback takes time, so right now Argent has still to get returns on Phoenix Port Elizabeth, because of its newness. A year ago it was in the same money-losing boat with Phoenix Middelburg and Richards Bay for the same reason.

Hendry expects Argent's company in the US, New Joules Engineering, of Kansas City, which manufactures railway retarders that are placed on track to slow train speed, to begin performing better as a result of sustained marketing pressure and the quicker tempo of activity within a rising US economy.

For the first six months of last year, New Joules was "an absolute nightmare", with no work whatsoever.

The company listed on the JSE Securities Exchange 10 years ago, beginning as Scharrig Industrial Holdings Ltd and then being unbundled out of Scharrighuisen Holdings into the new Argent Industrial Limited.

The Scharrighuisen family's 63% holding was reduced to the current 26% and the name of the company was changed to Argent Industrial Holdings. Hendry's first job was as an accountant for Phoenix Natal in 1995, where he worked for less than five months before moving to Scharrighuisen Mining for about two months and then to Phoenix Gauteng. To achieve the R1-billion turn-over-a-year by March 2007, Hendry will continue to add infrastructure into several of its companies. The company spends R35-million a year on business-boosting infrastructure and has bought welding machines, pipe-bending machines, guillotines, press brakes, profile machines, new trucks and cranes to build up capacity towards the billion-rand target. Phoenix Steel and Giflo alternate as largest contributors to overall turnover, depending on market demand in a particular year.

The group is currently set up for organic growth, where it has in-depth operational knowledge and is able to discern a multiplicity of opportunities.

Hendry likes to be at the ready to seize all new opportunities, and the gearing ratio of 25% provides the ability to buy if the right prospect arises.

Depending on what is for sale, Hendry would be prepared to lift the gearing ratio to higher percentages for the right deal.

The exchange rate is a big issue for Argent, as it is for all South African manufacturers, and is poised to deny it some R18-million in bottom-line profits as things stand.

Giflo has a footprint of 50 000 m², of which only 28 000 m² is being used.

Some Giflo contracts run for as long as eight years, but contracts last only as long as good performance, with loss of a contract a big blow in the automotive industry as it can keep participants out for long periods.

Argent has two non-executive directors in Fred Litschka, of De Beers, who heads the remuneration committee, and Pat Day, who heads the audit committee.

Mark Antonic, of Phoenix Steel Port Elizabeth; Shaun Lawrence, runs Phoenix Steel East London; Gavin Youngman runs the companies in the Cape; Lawrence Hendricks, Megamix; Lionel Jacobs, Jetmaster Cape; Pieter Lawson and Donovan Smith, Phoenix Steel – Gauteng; John Baptista, Phoenix Steel – Natal; Ian Hattingh, Phoenix Steel – Mpumalanga; Rob Wolhuter, Palisade Trading. Jetmaster is run by Kevin Redpath; Giflo by Alfonso Benassi; Excalibur, bought a year ago, is run by Michele Benassi; Derek Wade heads NWN; Mike Daniels, Hendor; Jaco Du Plessis, BMI; and Hans Thyssen, New Joules Engineering North America Inc. Marc Allen oversees all operations in Natal and surrounding areas.

Hendry regards Argent's main strength as its diversification and rapid-fire culture and his greatest ambition is one day to take over a large corporate and toss out all its overheads all day long until his hand gets sore: "That'll really be nice," he says.

Perhaps the kind of corporate thrift that Hendry exemplifies is just what the doctor ordered for the new corporate South Africa.