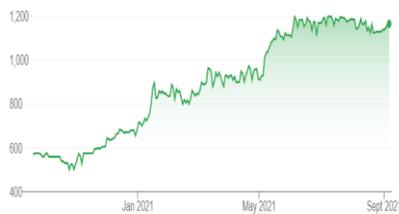


September 7th 2021

Argent Industrial

Louvres-on American Shutters in a R57m deal



Open	1,169.00	Mkt cap	693.41M ZAR	Prev close	1,169.00
High	1,169.00	P/E ratio	5.39	52-wk high	1,200.00
Low	1,150.00	Div yield	-	52-wk low	500.00

7-day chg	+3.5%
30-day chg	-1.7%
90-day chg	-2.5%
6 months chg	+21.4%
1-year chg	+105.1%
Year to date chg	+63.5%

AMERICAN
shutters

JSE: ART Price : 1165 cents Mcap: R696m 52wk high/low : 1200c / 500c

My last written note on micro-cap Argent Industrial was August 4th (1180 cents) when I wrote a 2-page note on a rare SENS cautionary the company had issued that day.

At the time I wrote I did not expect a big deal. Argent has been a net seller of domestic assets using the cash generated to undertake niche UK-based acquisitions as well as massive share buy-backs.

The cautionary I did not believe was that material and I postulated it (may) be a small bolt-on transaction.

I've been away in Namaqualand for a few days so yesterday picked up the news that Argent had agreed to acquire the well-known window accessory and decor brand American Shutters.

Argent paid R56.9 million cash for the business which has a NAV of R11.7 million and in the last financial year generated R9,7 million. I understand one of the founders and major shareholders is past retirement age and wishes to exit.

American Shutters founded in 1985 has a product range including wooden shutters, elegant yet robust security shutters and a variety of window blinds manufactured from sustainably grown timber or eco-friendly aluminium. The company has showroom / offices in Cape Town and Johannesburg.

Given Argent has a profitable and established security business in Xpanda, the addition of a more high-end, higher-value offering to the group portfolio will be a good fit in my opinion. American Shutters, like Trellidor's Taylor Blinds also has a range of security louvre shutters. Given Xpanda is a low-to-mid end range of security products, in-filling the upper-end with American Shutters seems a natural 'bolt-on fit'.

With Argent having a nationwide presence and an established home base in Natal, where I understand American Shutters is little represented, there should be synergy between Xpanda & American Shutters regards (ultimately) shared costs, manufacturing as well as sales.

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Argent seems to have bought American Shutters at a great price.

I also cover Trellidor and have done since IPO in October 2015. I'm having an online meeting with management later today to discuss FY2021 results.

In June 2016, my files tell me Trellidor purchased Taylor Blinds & Shutters for R148 million.

In recent results, Taylor had revenue of R204 million. COVID hit the business hard in 2020 and in FY21 the division reported a profit of R12.6 million from a prior loss of R39.7 million due to restructuring and the once-off impairment of goodwill.

The market barely blinked at the Argent SENS.

The stock yesterday dipped 4 cents to 1165 cents and has been tracking a narrow trading band since June. It has tried to breach the 1200 cent ceiling (but) hasn't quite yet made it.

I believe that in due course the stock will breach the 1200-cent glass ceiling and my target prices for Argent have all been met and exceeded. My 700-cent target was hit. My 1100-cent target was hit. **I currently have a 1400-cent target and that was updated in a note on May 6th 2021. On my forecast that places Argent on a forward PE of 4.3x.**

As a September interim result counter, I understand that Argent may have had a rather good half year.

Underlying earnings and profit growth have been stellar the past few years on the restructuring. YE2021 to March HEPS rose 63.3% to 217.9 cents per share. Interim results to September 2020 (as a reference for the impending September H1 2021) rose 47.0% to 73.7 cents per share.

The July COVID lockdown restrictions and Durban riots hit but not as badly as anticipated. The UK operations benefitted from the British Spring and Summer and an easing of COVID restrictions.

The market should not get spooked that Argent is back on the domestic acquisition trail. American Shutters was a well-priced transaction that bolstered an existing, profitable division.

Argent has been a net seller of assets in South Africa over the past three to four years and has successfully and profitably recycled the money into acquisitions in the United Kingdom and massive share buy-backs.

The UK interests, all niche but very profitable, now account for 39% of revenue and 56.6% of profit before tax, as per the recent year end results to March 2020. The strong Rand shaved a few percentage points off the division's performance.

Argent has also been rampant in buying back its own shares. It fulfilled its first mandate of buying back and cancelling 20%, it's now on its second tranche and has to date re-purchased 7.82% of its shares.

It has authority for another 12.18%. A recent SENS stated it had paid between 1165 cents and 1200 cents to buy back 831,538 shares for a total value of R9,957 million

Clearly, management believe the counter remains undervalued as the paid for stock as Argent was recently at a 52-week high and a level it has not been at since mid-2008. With a Net Asset Value of 1910 cents, at the current trading price, Argent is on a discount of 39%.

Given the American Shutters deal I do not expect Argent to suspend its on-going share buy-back program.

I further expect on-going domestic asset sales to further refine the portfolio away from 'metal bashing and steel' towards a more profitable niche industrial and consumer-focused activities

At 1165 cents, Argent has been a top recommendation of this desk since March 2019 when I trekked to Durban to meet the CEO for an update. Much has changed at the counter over the past years and the market – well some of them – have realised as the stock is +228% in 3-years and +63.5% year to date.

I maintain my buy on the counter and eagerly await the H1 2021 trading update. That expectation, I believe, will be the catalyst to move the stock higher.

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