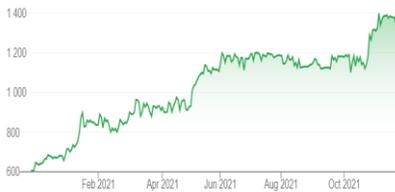


November 23rd 2021

Argent Industrial

Heading towards the R1 billion value club with strong results & smart deals



Open	1 360,00	Mkt cap	826,02M ZAR	52-wk high	1 598,00
High	1 378,00	P/E ratio	4,83	52-wk low	595,00
Low	1 360,00	Div yield	-		

7-day chg	0.0%
30-day chg	+20.6%
90-day chg	+22.2%
6 months chg	24.0%
1-year chg	+127.3%
Year to date chg	+92.3%

JSE: ART Price : 1375 cents Mcap: R798m 52wk high/low : 1599c / 600c

My last written note on micro-cap Argent Industrial was September 7th (1165 cents) when I commented on the acquisition for R56.9 million in cash for American Shutters.

It's been an eventful month for Argent Industrial.

On November 4th the stock made my third price target as I have been consistently upgrading the earnings & valuation as prospects develop.

My prior targets of 700 cents (made in January 2021), 1100 cents (attained in May 2021) and latterly my 1400 cents target, as set on May 6th 2021 was made in early-November ahead of expected interim results to September.

Argent, since my re-visit to the stock in March 2019 has been a stellar performer with a year-to-date return of 92.3% and legs, on my earnings and valuation forecast, to a new target of 1600 cents.

Two recent events galvanise my current and on-going positive recommendation on Argent Industrial despite the reticence of the institutional market to take the stock as a worthy investment proposition.

Recent interim results saw HEPS climb 101.0% as recovery in the South African operations upon the economy re-opening and strong demand for certain products powered interim results.

Two acquisitions in the period, American Shutters and UK-based The Fuel Transfer Group were undertaken at excellent pricing and I anticipate they will deliver a positive contribution to FY2022 results.

With a H1 2021 HEPS base of 148.1 cents per share from a FY2021 results of 217.9 cents per share, I forecast HEPS to March 2022 of 265 cents per share (+22%) with a caveat that a weaker Rand versus the £ could push this forecast a touch higher. I maintain my buy recommendation and revised target price of 1600 cents.

Anthony Clark

Financial & Industrial Small & Medium Market Cap Analyst
Food Producers & Agriculture Analyst
+27 (083) 300 7009
anthonyc@smalltalkdaily.net

 Follow me on Twitter @SmallTalkDaily1



H1 results to September 2021

A trading update released by Argent Industrial for its six months guidance to September 2021 was released on SENS on September 20th 2021.

The company guided that HEPS for the comparative period would increase between 83.3% to 107.3%. On the update the stock rose 5%.

Results published on SENS on November 17th recorded that HEPS rose towards the top end of guidance or an increase of 101.0% to 148.1 cents per share.

In the reporting period;

Revenue rose 21.3% to R1,060 million

Operating Profit increased 83.1% to R115,9 million

Profit before tax was R110.7 million (+99.3%)

With a 5.5% reduction in weighted average shares in issue, an on-going benefit of Argent substantive share buy-back program, HEPS rose as stated 101.0%.

Net Asset Value for the period rose 16.2% to 2065 cents per share.

No dividend was declared as Argent has an aggressive on-going share buy-back program that has seen the first 20% of issued shares re-purchased and cancelled with the second 20% underway. The last recorded re-purchase was in August in a range of 1165 cents per share to 1200 cents per share with authority to acquire 12.18% under the current authority.

Results demonstrated a high proportion of recurring revenue alongside a robust balance sheet that has facilitated the ability to acquire companies for cash and continue the on-going share buy-back program. Gearing at the period was 18.4%.

In the period the re-opening of the South African economy alongside the robust local steel market saw a move back into significant profitability.

In the six-months, South African revenue rise 31.4% to R796.9 million with a rebound in profitability to R55,9 million versus the prior comparative of R1,9 million.

The offshore interests that carried Argent during Covid saw a modest 1.7% rise in revenue to R263.4 million as Rand strength versus the British Pound on a comparative basis shaved some growth. Profitability rose 2.1% to R54.8 million.

The Fuel Transfer Group acquisition



The H1 2021 results SENS gave a three-sentence comment on the acquisition of UK-based Fuel Transfer Group Ltd for the sum of £1.00.

In investigating the company and its rationale, this is a classic Argent Industrial deal and has material synergies with an existing UK business within the Argent portfolio namely Fuel Proof.

The Fluid Transfer Group, founded over 50 years ago, designs and manufactures refuelling solutions for the aviation industry, military and marine operations. The company is a market-leading refuelling vehicles and dispensers, supplied across mainland Europe, Asia and the Middle East. Their primary customer base is oil & fuel suppliers where they manufacture the custom fuel delivery vehicles mainly used at international airports.

An example, as shown below, is an aircraft refuelling vehicle that was custom manufactured at a cost of £270,000 (R5,7 million). The company has the ability to produce 40+ per annum.



They build a variety of refuellers which have a capacity ranging from 5,000 litres for general aviation purposes to 65,000 litres high flow from elevated platforms which are used to re-fuel wide body jets such as the Airbus a380 OR Boeing B777-X.

Aside from custom manufacture, Fuel Transfer also provides regular maintenance contracts alongside the regular monitoring and checking of the fuel equipment, a high propriety for health & safety legislation.

Given Fuel Transfers 50 years of operation they have the required licenses and credibility to operate on the airport aprons. This is a significant competitive advantage.

During Covid-19 and the lack of airport transportation, the company suffered. With the reopening of air transport, it is expected that the prospects for Fuel Transfer will improve.

I understand despite the £1.00 purchase price, Argent has put in some working capital and taken-on the loan account. Expectations are for a recovery in the coming year with estimates of revenues of £14 million (R300 million) and a profit of £600,000 (R12,78 million) if targets are met.

The acquisition of Fuel Transfer Group fits in well with an existing UK-based Argent subsidiary in the related fuel dispensing and transport segment.



Fuel Proof is a leading manufacturer of bunded fuel storage equipment. The company offers a range of fuel storage solutions and services, including fuelcubes, diesel tanks, water storage, and waste oil storage tanks, with each individual component manufactured in-house. The acquisition also encompassed Roll-tec which rents out mobile fuel solutions.

Fuel Proof was acquired by Argent in June 2018 for a combined £4.6 million.



Since acquisition, the Fuel Proof/Roll-tec transaction has delivered solid results to Argent who spotted a growing niche in fuel delivery in the United Kingdom, in best practice, given the changing legislation on the transportation and storage of hazardous liquids.

I understand Argent in the three years since acquisition has recouped its initial investment. In the last reported financial period to March 2021, revenue was £9.6 million with a PBT of £2.1 million.

American Shutters acquisition



In early-September, Argent paid R56.9 million cash for the business which has a NAV of R11.7 million and in the last financial year generated a profit of R9,7 million. I understand one of the founders and major shareholders was past retirement age and wished 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.

Overall

I currently have a 1600-cent target on Argent Industrial. My past three price targets have all been attained and exceeded.

On my forecast for HEPS to March 2022 of 265 cents per share, that places Argent on a PE of 5.2%.

I shall watch the action of the Rand versus the UK £ regards translation benefits. Since Argent's September H1 (R20.18 vs £), the Rand has lost -5.0%.

I thus may need to revise my FY2022 HEPS as Argent's year end nears.

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 rose 47.0% to 73.7 cents per share with another strong showing (101.1% to 148.1 cents per share) in H1 2021.

With a Net Asset Value of 2045 cents, at the current trading price, Argent is on a discount of 33%.

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 Shuttters and The Fuel Transfer Group. Both were well-priced transactions that will bolster existing, profitable divisions.

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 25% of revenue and 49.5% of profit before tax, as per the recent interim results. The strong Rand shaved a few percentage points off the division's performance in the past reporting period, that has now reversed with Rand weakness since the September interim period.

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%.

An August SENS stated Argent had paid between 1165 cents and 1200 cents to buy back 831,538 shares for a total value of R9,957 million

Given the American Shuttters and Fuel Transfer Group deals, 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-focussed activities

At 1375 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 stocks return of +187.7% over the past 3-years and +92.3% year to date is a testament to this revised strategy. I expect that winning strategy to continue.

I maintain my buy on the counter.

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