

Argent Industrial

Cash flush

Argent Industrial (Argent) is primarily a steel-based beneficiation group, bolstered by offshore investments in both existing and new ventures, and by promoting exports. Its strategy of moving away from solely South Africa (SA) to the UK and US has established a solid diversified foundation for sustainable growth locally and internationally. Consequently, there has been a CAGR in headline earnings per share of 33% over the past five years, with 76% of this growth derived from regular business operations and the remainder fuelled by a steady share buyback strategy. Net cash of ZAR403m is equivalent to ZAR7.40 per share, or 35% of the current market value. The stock trades at a P/E of 4.9x (compared to international peers at 8.5x) and offers a dividend yield of 5.4%.

Margin driven by diversification

In 2017, SA-sourced revenue exceeded 95% and the SA pre-tax profit contribution stood at 70%, while these now account for only 51% and 37%, respectively. Thanks to higher margins from the UK and US, Argent's overall operating margin improved from below 5% to almost 14% in FY24. Moving some of the company's business activities outside SA and securing more lucrative margins on manufactured products have compensated for the traditionally low steel trading margins.

Diversification doubles as natural hedge

Argent's diverse manufacturing portfolio serves as a hedge against mixed demand trends. Although many of its SA products are sensitive to factors in the building and construction sector, diversification within these business units provides additional security as they directly engage with both end-consumers and businesses. Other products are influenced by security aspects and, with the constant threat from crime, the demand for physical security items appears stable. Internationally, the need for fuel storage solutions and security items could boost sales, and the level of rail activity in the US could ensure steady demand for its speed control retarder systems in railyards.

Share buyback proves to be value enhancing

Since 2016, Argent has implemented a share buyback strategy as a method of capital distribution to shareholders, spending ZAR268m by FY24, of which ZAR208m (78%) was applied over the past five years. This reduced its issued shares from 91.8m to 54.4m (-41%). The buyback yield reached a high of 22.7% in FY20 and has since decreased to 3.0%. Additionally, the company distributes dividends as part of its cash distribution policy, maintaining a cover ratio of approximately 4x.

Historical financials

Year end	Revenue (ZARm)	PBT (ZARm)	EPS (ZARc)	DPS (ZARc)	P/E (x)	Yield (%)
03/21	1,966.0	175.8	217.9	0	10.5	n/a
03/22	2,432.7	252.6	339.2	42	6.3	2.0
03/23	2,459.4	292.8	411.3	95	5.2	4.5
03/24	2,544.2	342.4	438.5	115	4.9	5.4

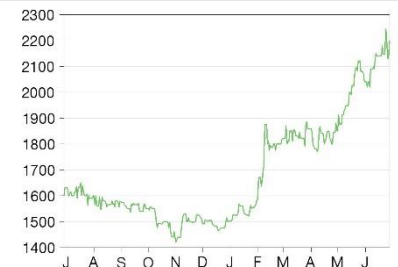
Source: Company financial reports

Basic materials

28 June 2024

Price **ZAR21.3**
Market cap **ZAR1,159m**

Share price graph



Share details

Code	ART.SJ
Listing	JSE
Shares in issue	54.4m

Business description

Argent has 24 operating units throughout SA, the UK and the US. Manufacturing and trading in steel and steel-related products are the company's main activities. Argent covers a wide spectrum of products including concrete building products, mobile and static banded fuel storage and dispensing systems and bespoke trolleys.

Bull

- Net cash equivalent to 35% of share price.
- Trades at 4.9x P/E (43% discount to peers).
- Dividend yield of 5.4%.

Bear

- Steel trading remains a sizable part of business, with continued downward pressure on margins in a highly competitive SA market.
- De-industrialisation of South Africa with continued decline in manufacturing and capital spend.
- Political and labour instability in South Africa almost driving further diversification.

Analyst

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