

Smalltalkdaily Research

Argent Industrial: FY2024 results. Solid growth but UK taxman takes fatter slice

Share code: ART

Share price: 2230c

Market cap: R1214m

52-wk high/low: 2299c / 1380c

Prospects

JSE small cap Argent Industrial is an oft maligned stock.

I highlighted back in May 2019 its growth potential and have had a perpetual buy on the counter since I first encountered the evolution outlined by management at 352 cents.

Over the past 3 years the stock is +85% and for five years is +315%, yet the market has mostly passed the counter by despite solid earnings growth and an ongoing share buy-back.

Sales of domestic assets and excess property has been re-invested offshore via acquisitions in niche, primarily, UK companies. That has powered earnings and Argent's Rand hedge qualities where 64% of profit is now derived offshore and increasing.

I move my recently attained 2200-cent target price to 2625 cents (+18%).

Chart



Share Performance

7-day chg	-0.92%
30-day chg	+5.88%
90-day chg	+16.25%
6 months chg	+4.39%
1-year chg	+32.52%
Year to date chg	+43.9%

I maintain by standing buy on Argent Industrial. I set an 1800-cent target in November 2022 as the prior target was exceeded. I increased that target to 2200-cent. That has also been exceeded. Today, I raise again my target to 2625 cents (+18%)

Argent reported results for the year ended March 2024 last week.

After a very strong H1 where HEPS increased +22.9% to 222.7 cents per share, again driven by offshore divisions, H2 performance was a tale of two geographies. South Africa, with loadshedding and a weak economy, saw revenue go backwards (-8.0%) with the offshore operations again powering ahead (+19.1%). Group Profits before Tax rose +17.0% to R342.4 million like-on-like with the domestic PBT ahead +1.9% and offshore +27.8%. Profit split; South Africa 36.5% and offshore 63.5% up from 58.1%.

HEPS from a FY2023 base of 411.3 cents per share in FY2024, rose +6.6% to 438.5 cents per share. This more modest HEPS growth was all due to the increase in the UK corporate tax rate from April 2023 from 19% to 25%. This reduced the profit growth rate within Argent from 16.96% to 6.78% in the period.

Argent sits on a comfortable NAV of 3115 cents (+16.1%) and cash in the bank of R450 million (or 828 cents per share) with a significant proportion of this cash held offshore.

The business has had eleven successive increases in HEPS and resumed dividend payments in 2023. Argent will continue its long-standing share buy-back program. 35% of outstanding shares have already been repurchased and cancelled.

I have commented that despite the fact the Argent Industrial has trounced the JSE Small Cap Index over a three and five-year period, increasing 85% and 315% respectively, the counter remains overlooked by the wider institutional market.

On a PE of 5.1x, Argent despite its share price gains remains a well-priced growth stock.

I'd postulate that a sensible solution, given a greater contribution of earnings are now derived offshore, is for Argent to de-list from the JSE, where its rating and resurrection has gone mostly unrecognized by institutions, and re-list on the London AIM market. It may need a few more acquisitions to meet the size criteria, but I see further bolt-on deals within the counter over the coming year or two.

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Overview of FY2024 results

Group revenue for the year ended March 2024 rose 3.5% to R2,544.2 million.

- Profit before tax rose 17.0% to R342.729 million
- Finance income +348% to R12.856 million
- Profit for the year increased 6.8% to R252.305 million
- Taxation paid increased +59.5% to R90.121 million as the Argent tax rate rose from 19.29% to 26.31% as the UK tax rate in the year rose from 19% to 25%

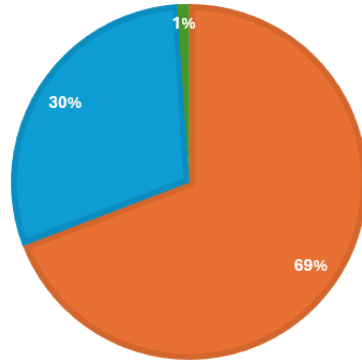
The weak domestic environment and a decline in the steel sector – the drama surrounding Arcelor Mittal is all too well known – saw Argent's South African operations report a -8.0% decline in revenue to R1,307 million with the steel trading division recording a -20.6% fall in revenue to R517,2 million.

	Note	GROUP		COMPANY	
		2024 R 000	2023 R 000	2024 R 000	2023 R 000
Revenue	18	2 544 216	2 459 359	86 105	125 348
Cost of sales		(1 823 339)	(1 813 066)	-	-
Gross profit		720 877	646 293	86 105	125 348
Other operating income		18 854	18 213	966	983
Movement in impairment of trade receivables	11	2 383	(1 963)	-	-
Other operating expense		(399 385)	(358 185)	(1 803)	(5 201)
Operating profit before finance income and expense	19	342 729	304 358	85 268	121 130
Finance income	20	12 856	2 869	1 998	1 094
Finance expense	20	(13 159)	(14 466)	-	-
Profit before taxation		342 426	292 761	87 266	122 224
Taxation	21	(90 121)	(56 496)	(227)	(199)
Profit for the year		252 305	236 265	87 039	122 025
Attributable to owners of the					
- Parent		244 924	230 521	87 039	122 025
- Non-controlling interest		7 381	5 744	-	-
		252 305	236 265	87 039	122 025
Basic earnings per share (cents)	22.1	441.9	413.1		
Diluted earnings per share (cents)	22.2	441.9	411.3		

	GROUP		COMPANY	
	2024 R 000	2023 R 000	2024 R 000	2023 R 000
Revenue by category:				
Dividends	-	-	86 105	125 348
Manufacturing	2 026 999	1 807 214	-	-
Steel trading	517 217	651 268	-	-
Properties	-	877	-	-
Total revenue by category	2 544 216	2 459 359	86 105	125 348
Revenue by geographical location:				
South Africa	1 307 458	1 421 048	20 388	65 348
Other regions:				
Asia and Middle East	184 709	118 614	-	-
Australia and New Zealand	15 055	18 370	-	-
North America	66 668	62 694	-	-
South America	5 217	290	-	-
Rest of Africa	235 847	203 248	-	-
Rest of Europe	60 415	70 251	-	-
United Kingdom	668 847	564 844	65 717	60 000
Other regions	1 236 758	1 038 311	65 717	60 000
Total revenue by geographical location	2 544 216	2 459 359	86 105	125 348

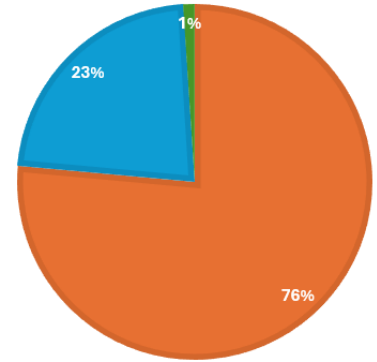
FY 2023 REVENUE

Manufacturing Steel Trading Property



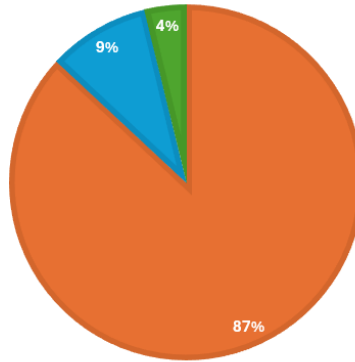
FY 2024 REVENUE

Manufacturing Steel Trading Property



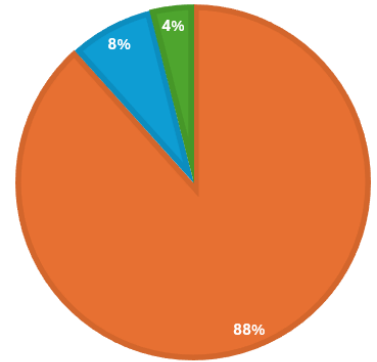
FY 2023 PBT

Manufacturing Steel Trading Property



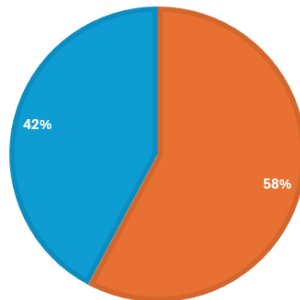
FY 2024 PBT

Manufacturing Steel Trading Property



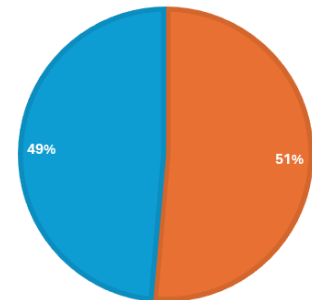
FY 2023 REVENUE GEOGRAPHIC SPLIT

South Africa Other Regions



FY 2024 REVENUE GEOGRAPHIC SPLIT

South Africa Other Regions



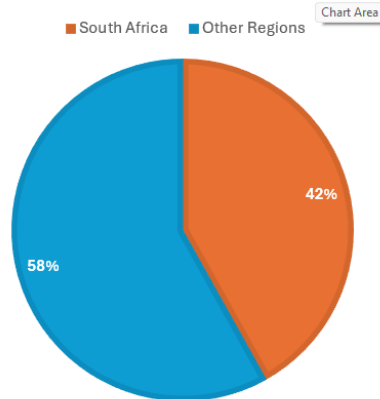
The main growth emanated from the offshore operations which like-on-like reported a 19.1% increase in revenue contribution to R1,256.7 million with profit before tax surging 27.8% to R217,4 million.

	MANUFACTURING R 000	STEEL TRADING R 000	PROPERTIES R 000	CONSOLIDATED R 000
Revenue from external sales	2 026 999	517 217	-	2 544 216
Inter-segment sales	137 271	120 974	28 641	
Total revenue	2 164 270	638 191	28 641	
Profit before taxation	302 573	26 324	13 529	342 426
Taxation				(90 121)
Profit for the year				252 305

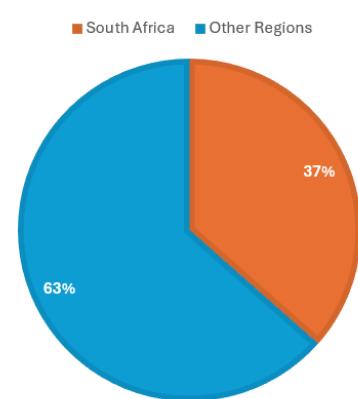
Argent continued to grow its successful and highly profitable offshore footprint which in FY2024 comprised 48.6% of revenue but 63.5% of profit before tax.

	SOUTH AFRICA R 000	OTHER REGIONS R 000	CONSOLIDATED R 000
Revenue from external sales	1 307 458	1 236 758	2 544 216
Profit before taxation	125 068	217 358	342 426
Taxation			(90 121)
Profit for the year			252 305

FY 2023 PBT GEOGRAPHIC SPLIT



FY 2024 PBT GEOGRAPHIC SPLIT



- Manufacturing segmental revenue rose 12.1% to R2,027 million
 - Manufacturing profit before tax (PBT) rose 18.9% to R302.6million

The manufacturing side had a steady performance despite high inflationary cost push. However, Argent’s suite of products in home security, DIY product and access equipment remain in demand in any economic environment.

The weak Rand aided in exports of Jetmaster and the security enclosures business. Xpanda increasing its sales into Canada with a new venture in the UK (a contract with Booths a chain of high-end supermarkets in Northern England

On a results year-to-date basis like-on-like the Rand weakened against the US\$ by -6.0% and by -8.7% against the British £.

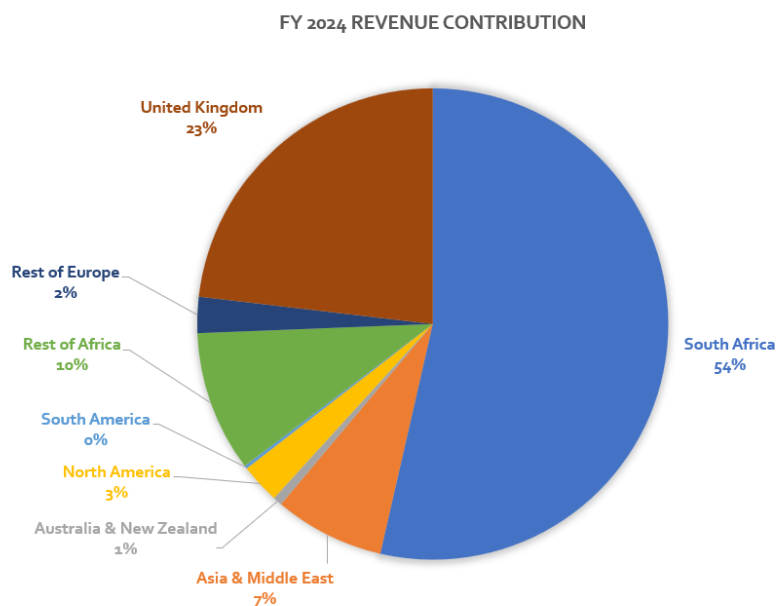
With the South African out of the way and the hope for a Government of National Unity (GNU) the currency has firmed over the past weeks.

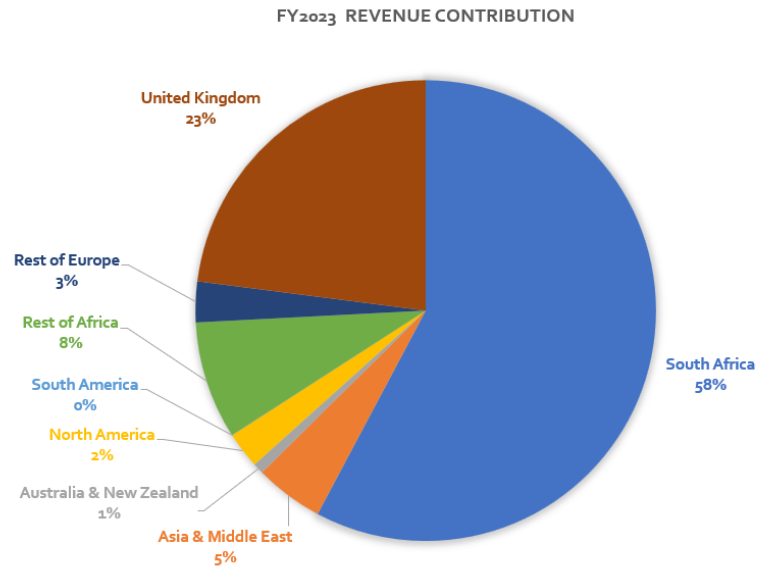
As I write the US\$ is at 18.24 and the GBP £ at 23.06. The rand has been at better very recent levels against the US\$ and £, however the GNU wrangling has seen the currency slip the past week.

The directionality of the US\$ and £ will be a key determinant to the first half earnings for Argent given that now nearly 50% of revenue is derived offshore and 63.5% of profit before tax.

- Steel trading segmental revenue reversed 20.6% in a very challenging domestic period. YE 2024 revenue declined to R517.217 million
 - Steel Trading PBT declined 3.2% to R26.3 million
- Geographical split of revenue and profit before tax. Again, a weaker South African economy hit domestic results with growth offshore and from translation gains aiding the offshore component.
 - South Africa R1,307.458 million (-8.0%) and PBT of R25.068 million (+1.9%)
 - Offshore R1,236.758 million (+19.1%) and PBT of R217.358 million (+27.8%)

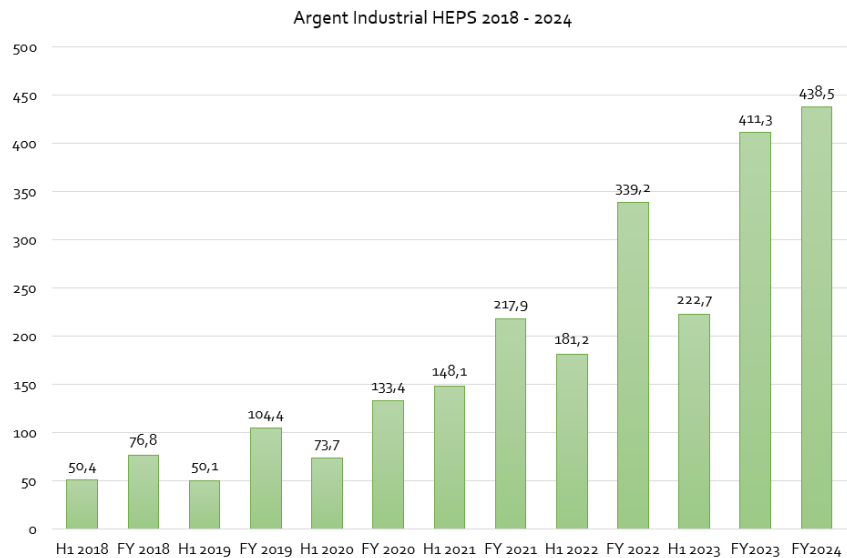
Year-on-year change in Argent revenue contribution





HEPS rose for the eleventh successive results with a 6.6% increase to 438.5 cents per share. In April 2023, the UK Government raised the corporate tax rate from 19% to 25%. This shaved the PBT growth rate from 17% down to 6.8% thus reducing HEPS.

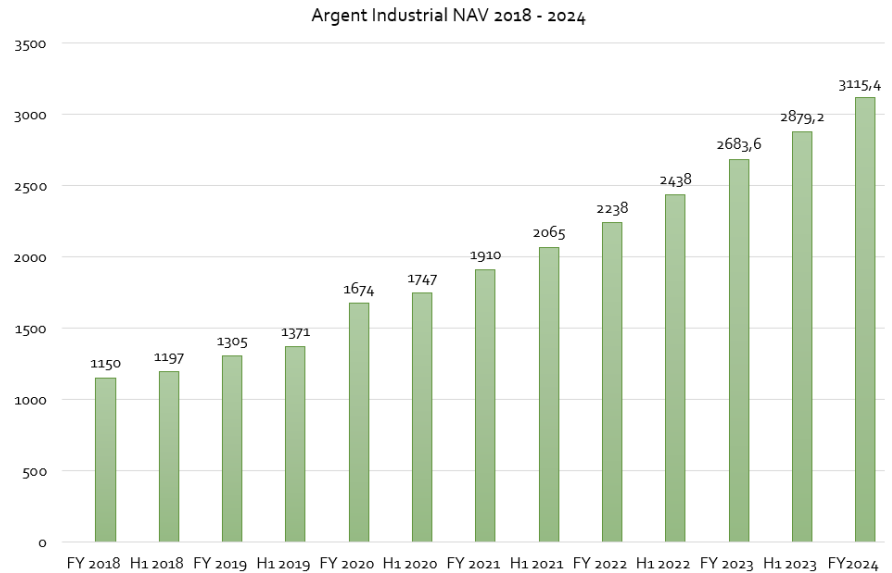
I had a long-standing forecast of between 490 – 500 cents (I should have updated that) and stripping out the UK tax increase, HEPS would have come in at 485 cents (+18%).



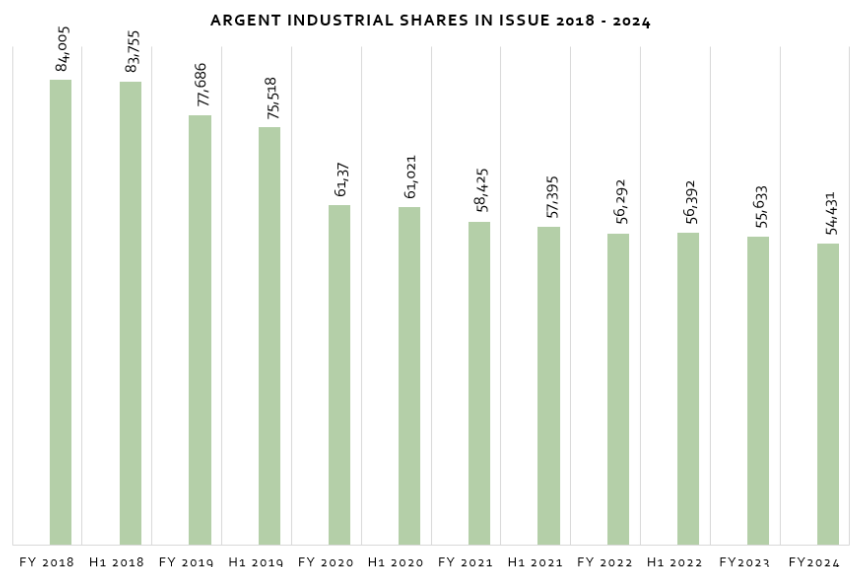
With a 55-cent interim dividend paid, Argent declared a final of 60 cents for a yearly payout of 115 cents a share (+21%).

Cash at the end of the period was R450.655 million (+76.5%) mostly offshore in hard currency. This equates to 37% of Argent’s present market capitalisation or 828 cents per share. I anticipate up to a third of the cash will be earmarked for further offshore expansion into operating assets and property.

Net asset value since 2018 to the latest disclosed value of 3115.4 cents per share has risen by 171% with much of the value now held in Rand hedge assets principally in the United Kingdom.



Through disposals of non-core assets and property alongside the cash generation from existing businesses, Argent has not only grown its offshore asset base and resumed paying dividends but bought back share since 2018 reducing its number of shares in issue from 84 million to 54,431 million (-35%) and continues to use proceeds from non-core asset sales to buy-back shares.



During 2023, Argent steadily re-purchased its own shares, and acquired 1,183,035 shares at an average price of 1293 cents per share and cancelled the shares. In FY2024, the company acquired a further 1,625,223 shares at an average price of R15.45 and states it will continue to buy back shares.

Overall

I forecast another solid year of growth in Argent predominantly driven by an increasing exports component alongside an expanding offshore base.

The group has a solid asset and R450 million cash balance which will enable any opportunistic acquisitions offshore.

The South African businesses remain muted but American Shutter, Jetmaster and Xpanda have offshore growth potential.



The expansion of Xpanda into the UK is ongoing, with further product additions planned in the form of Xpanda's version of the American Shutter. Xpanda has also managed to increase its exports into Australia, New Zealand and Canada as well as increasing its reach into Africa and the Indian Ocean Islands.

Using its South African manufacturing base and ability to source and supply materials, Xpanda is eager to expand into the United Kingdom and a presence has been established. A contract with the Northern England retailer Booths has already been won and Argent aims to use it network to cross-sell products in the UK.

Mega-Mix the Somerset West based concrete products supplier has at last broken even after a long period of underperformance. Infrastructure and private sector projects in the winelands region should aid.

The local steel operations of Gammid and Phoenix has underperformed with hopes the GNU may see some renewed sector activity into FY2025.



All the action within Argent is offshore.



Exports will be a focus especially at American Shutters, Jetmaster and Xpanda with moves already underway to enter new territories and expand existing sales footprints.

Prospects for the offshore businesses remain robust. Following from a full order book in 2023, 2024 will see ongoing growth in the businesses. The order book is full.



The fuel operations have the best prospects.



Expansion into France and Europe has occurred and growing orders into the Middle East and parts of Africa were seen in FY2024 and planned into FY2025.

Aside from the manufacture and sale of fuel storage products and specialised fuel transport vehicles at airports, Argent has entered the fuel rental market to become a "one stop shop" offering fuel solutions across the three businesses Fuel Proof, Fluid Transfer Group and FloFuel Support.

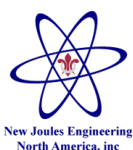


The launch of a hybrid diesel and electric powered airport fuel delivery truck across the manufacture for sale and rental segment will be the first such product in the market.

US rail retarder business New Joules has won a small order for its



product – a first – into Europe. The product helps slow a train, reducing the need for using brakes and reducing brake wear. A modest contract signed with Austrian Rail has been made with the nations rail network for rail retarders, significantly larger than the US.



On these results Argent is trading on a PE of 5.1x and a dividend yield of 5.2%.

Argent over the past five years has successfully exited many domestic low margin businesses alongside property and recycled the cash flow into overseas niche acquisitions and share buy-backs.

It can be argued that Argent has sold at low multiples South African assets to buy better operational companies principally in the United Kingdom. This has given Argent a better platform for profitability. However, Argent was fortuitous in its acquisitions.

On the exit from Europe by the UK in 2018 (BREXIT) many EU companies wanted to leave the UK market. Argent picked up some gem assets at bargain basement prices which have now made solid revenue and profit contribution to the group.

Similarly, Covid provided an opportunity to acquire distressed assets which post-Covid are performing strongly. One example of this niche acquisition was in the fuel transport business at selected UK airports which is now extremely profitable.

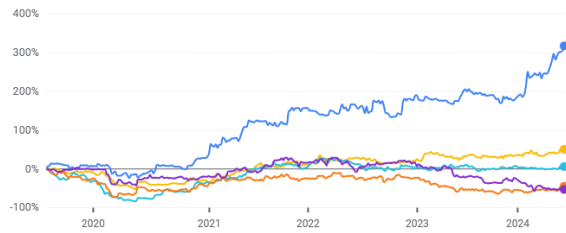
Over the next twelve-to-eighteen months I anticipate further refining of the South African portfolio to exit more of the low margin trading assets. I foresee, ultimately, Argent’s South African operation will be a manufacturing hub with many of the current assets such as ProCrane, Hendor, Gammid and Phoenix sold.

Argent Industrial Limited

ZAC 2,230.00 ↑ 316.82% +1,695.00 5Y

Jul 1, 5:10:43 PM UTC+2 · ZAC · JSE · Disclaimer

1D 5D 1M 6M YTD 1Y 5Y MAX



Argent Industrial Li...	ZAC 2,230.00	+ZAC 1,695.00	↑ 316.82%
Hudaco Industries ...	ZAC 17,800.00	+ZAC 5,904.00	↑ 49.63%
Invicta Holdings Li...	ZAC 2,785.00	+ZAC 135.00	↑ 5.09%
Kap Ltd	ZAC 316.00	-ZAC 266.00	↓ 45.70%
Metair Investment...	ZAC 1,098.00	-ZAC 1,289.00	↓ 54.00%

On-going expansion in the UK will continue and it is my personal view that given the lack of wider institutional interest in Argent, I believe an eventual move from a JSE listing towards an AIM listing in London.

As a comparative against other JSE-listed industrial businesses, Argent’s share price has stellar, despite limited ownership/

With a solid NAV of 3115 cents and my HEPS forecast of 510 cents per share (+16%) for FY2025, I raise my target value for Argent to 2625 cents (+18%). BUY

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