Argent's diversification strategy

Basic materials, iron and steel

Following a five-year HEPS CAGR of 33%, Argent's recent interim results showed a lull in growth, raising questions about its international expansion strategy. We believe the strategy remains intact with potential long-term benefits from diversification and higher offshore margins.

By Hennie Vermeulen, Metals & Mining Analyst

Following an established recipe

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 diversifying from a solely South African (SA) operation into the UK and US has established a solid foundation for sustainable growth both locally and internationally.

The company has delivered a compound annual growth rate (CAGR) in headline earnings per share (HEPS) of 33% over the past five full financial years, with 76% of this growth derived from regular business operations and the remainder fueled by a steady share buyback strategy.

Recent lull in growth

Argent's most recent interim results (six months to end September 2024) show a lull in growth with earnings only marginally up by 4%. Margin improvement was offset by a slowdown in turnover. There was a 9% contraction in foreign revenue, largely because of operational changes at its fuel storage solutions in the UK, exacerbated by the strength in the rand.

The operational changes at Fluid Transfer and Fuel Proof in the UK are now completed, and production is now running normally.

ALG Take

Argent's offshore diversification strategy is beneficial, regardless of currency dynamics, with strong SA trading conditions providing baseline support whilst the rand is strong.

With c50% of earnings historically from foreign currencies, the company performance will remain exposed to the fortunes of the rand.

Offshore margins remain strong

There are however a number of factors that are expected to be more influential than exchange rate in driving near- and long-term results for Argent.

Two new acquisitions (i.e. Standmode and Xpanda Canada) will start to fully contribute during the full financial year to end March 2025.

The company has also increased its market share in the New Joule rail retarder systems for speed control for rail classification yards, in both the UK and Austria.

FloFuel, a manufacturer of mobile fuel storage systems for the international aviation, maritime and vehicles industries, showed new market penetration in the UK with its technological improvements and greener credentials in the aviation fuel business.

Finally, OSA Doors, a manufacturer of a range of industrial doors, opened a new distribution centre in the UK.

These developments could all combine to bolster turnover and be positive for margins, regardless of exchange rate impacts.

Diversification doubles as natural hedge

Argent's diverse manufacturing portfolio serves as a hedge against volatile demand trends in its core steel business. 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.

Although many of its SA products are sensitive to the cyclical 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, while the access to foreign assets and trade, combines and acts as a natural hedge.

Offshore strategy intact

Regardless of exchange rate dynamics, Argent is likely to see an increase in its non-rand earnings contribution compared to the c50% reported in recent years thanks to recent developments. It further has the potential for margin expansion as its exposure to higher-margin foreign revenue increases.

Engage with ALG

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Argent's strategy of bulking up on foreign profitable assets is therefore still intact and beneficial to shareholders, while in the near-term strong SA trading conditions provide baseline support.

In addition, with c80% of its large cash holdings kept offshore, Argent is well positioned to reactivate its share buy-back strategy (which it has effectively employed in recent years) when exchange rate dynamics become more supportive.

ALG is well positioned

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