

Argent Industrial

Following an established recipe

Primarily a steel-based beneficiation company, Argent Industrial is supported by export promotion and offshore investments in both new and existing businesses. By shifting its focus from South Africa (SA) to the US and the UK, it has created a strong, diversified base for long-term, sustainable growth, both domestically and globally. During the six-month review period (April to September 2024), Argent added another UK operation, as well as an investment in Xpanda Canada. Amid challenging global conditions, interim headline earnings per share improved to 231c versus 223c for the comparable period in the previous financial year. ZAR346m in net cash is equal to ZAR6.35/share, 23% of the company's market value.

Offshore margins remain strong

Turnover for the review period was down 3% with both steel trading (-4%) and manufacturing (-3%) showing similar weakness. By geographical segment, SA-based turnover slipped by 3%, while offshore dropped by 9%, partly because of the stronger ZAR and planned operational changes at its fuel storage solutions in the UK. Steel trading margins continued their downward trend to 2% from 5% stemming from softer metal prices and ever-present stiff competition. The total SA margin improved to 7% from 6%, driven by renewed strong demand for manufactured products. However, this is still below the FY24 margin of 10%. Offshore margins improved to 25% from 24%, thanks to strong overall demand and market share gains. PBT reached ZAR176m (+3%), with SA contributing ZAR56m (+30%) and offshore ZAR120m (-7%). Offshore assets contributed 68% to total PBT (vs a 38% contribution to turnover), down from 75% in the comparable period but up from 63% in FY24. This is a clear indication of the elevated margins being earned on offshore assets. Excluding a portion of Standmode, the UK acquisition that was not part of the comparable period or FY24 figures, the contribution is 67%.

Diversification and cash distribution sustained

Standmode (and Xpanda Canada) will continue to bolster offshore contributions as numbers will be incorporated in FY25. Margins should further be aided by maintained market share in the UK and new clients in Australia, especially in the US-based Joule speed control retarder systems. Although the board is allowed to continue with its share buyback strategy, no shares were repurchased during the review period. Argent declared an interim dividend of 60c, 9% better than the previous interim payment of 55c, maintaining cover of around four times.

Historical financials

Period end	Revenue (ZARm)	PBT (ZARm)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
09/21	2,152.2	231.0	292.3	0.0	9.6	N/A
09/22	2,575.7	278.4	372.3	87.0	7.5	3.1
09/23	2,563.4	327.9	452.8	97.0	6.2	3.5
09/24	2,501.2	346.7	446.8	110.0	6.3	3.9

Source: Company financial reports

Basic materials, iron and steel

29 November 2024

Price ZAR28.00
Market cap ZAR1,524m

Share price graph



Share details

Code ART
 Listing JSE
 Shares in issue 54.4m

Business description

Argent Industrial operates in 25 locations across the US, UK and South Africa. Its primary business is the manufacturing and trading of steel and steel-related products. This includes dispensing systems, custom trolleys, mobile and stationary banded fuel storage, modular buildings and concrete building materials.

Bull

- South African economy expected to improve in 2025 due to successive interest rate decreases, which should stimulate local demand further.
- Net cash remained healthy even after recent acquisitions.
- Trades at a historical 6.3x P/E and 3.9% dividend yield.

Bear

- Stronger ZAR is counterproductive to Argent's offshore strategy, albeit to a limited degree.
- Steel trading remains a sizable part of the business, with continued downward pressure on margins in a highly competitive South African market.
- De-industrialisation of South Africa with continued decline in manufacturing and capital spend.
- Political and labour instability in South Africa driving further diversification.

Analyst

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