

# Argent Industrial

**Basic materials, iron and steel**

27 August 2024

## Argent expands internationally

Argent, a steel-based beneficiation group with offshore investments, is advancing its strategy of expanding beyond South Africa, focusing on the UK and US markets. The group has announced another acquisition, this time purchasing UK-based Standmode for £6.9m (ZAR159.3m), paid in cash including £1.0m (ZAR23.1m) for the property owned by the entity. This transaction not only bolsters Argent's foreign asset portfolio but also strengthens its more profitable manufacturing division. Compared to Argent's history of acquisitions, this deal is particularly favourable, with a price-to-net asset value ratio of 2.3x, lower than the 2.7x average for the group's previous three UK acquisitions. Based on the provided historical after-tax earnings of Standmode, the acquisition is likely to be earnings accretive. The net cash position after the transaction should remain robust.

## Continued diversification strategy

Over the past eight years, Argent has steadily pursued acquisitions, securing four operating businesses (excluding the most recent purchase) to not only solidify its manufacturing arm but also reduce its reliance on South Africa. The UK has been a key focus, with three out of the four previous deals executed there, and the latest acquisition, Standmode, is also UK based. Through its subsidiary Mersey Container Services (Mersey), it manufactures modular buildings, offices, mess units and toilet and shower blocks, as well as state-of-the-art anti-vandal welfare units. Mersey has been a player in the fabrication and accommodation industry for over 30 years.

## Purchase consideration: A fair price

When comparing the purchase price of Standmode to previous acquisitions by Argent in the UK, this transaction appears consistent and well-reasoned. In terms of the calculated multiples drawn from previous deals, Argent paid in line with historical UK transactions. Additionally, the group secured a 15% discount on the price-to-net asset value. Based on an analysis of Argent's own historical UK deal averages, Argent could have justified a higher payment for Standmode based on a price-to-net asset ratio of 2.7x. Instead, it paid at 2.3x, which represents a 22% discount.

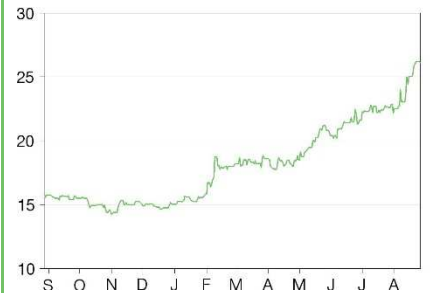
### Historical financials

Year end	Revenue (ZARm)	PBT (ZARm)	EPS (ZARc)	DPS (ZARc)	P/E (x)	Yield (%)
03/21	1,966.0	175.8	217.9	0	11.9	N/A
03/22	2,432.7	252.6	339.2	42	7.7	1.6
03/23	2,459.4	292.8	411.3	95	6.3	3.7
03/24	2,544.2	342.4	438.5	115	5.9	4.4

Source: Company reports

**Price** **ZAR26.10**
**Market cap** **ZAR1,420m**

### Share price graph



### Share details

Code	ART
Listing	JSE
Shares in issue	54.4m

### Business description

Argent Industrial now has 25 operating units throughout South Africa, the UK and the US. Manufacturing and trading in steel and steel-related products are the company's main activities. It covers a wide spectrum of products including concrete building products, modular buildings, mobile and static banded fuel storage, and dispensing systems and bespoke trolleys.

### Bull

- Net cash expected to be still healthy even after the deal.
- Trades at 5.9x historical P/E.
- FY24 dividend yield of 4.4%.

### Bear

- Steel trading remains a sizable part of the 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

Hennie Vermeulen +44 (0)20 3077 5700

[industrials@edisongroup.com](mailto:industrials@edisongroup.com)

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