

## A WEE DRAM

# Winds of change at Altron deliver sunny results and forecasts of strong profits

**A**llied Electronics Corporation (Altron) is almost unrecognisable from two years ago. Gone is the byzantine control structure that was dominated by the Venter family, and the only member of the family on the board is Robbie Venter as nonexecutive director, with founder Bill Venter having retired earlier in 2018.

The operating structure has also been streamlined, the group has turned profitable, and dividends have been resumed for the first time since 2016. It has transformed from an operation based on infrastructure physical inputs into a player in the information and communications technology (ICT) sector.

Strong profit growth is expected for the foreseeable future, making Altron a potentially attractive share in the software and computer services sector of the JSE.

After the disposals of a long list of operating divisions, the Altron group makeover has changed it from an incoherent electronics conglomerate into something that knits together with common purpose. Most, if not all these disposals, were operating in the “heavy” infrastructure-related areas, pinning their hopes on promises of public-sector infrastructure development in the 1990s and the last decade that were not delivered.

The group now comprises of solidly performing divisions Netstar, Bytes Secure Transaction Solutions, Bytes UK, Altron Bytes Document Solutions, Altron Bytes Systems Integration and Altron Bytes People Solutions. The only two underperforming operations are Altron ARH and Altron Arrow.

For the six months ended August 31 2018, normalised group revenue rose 44% to R9.8bn. The key driver of this strong performance was enjoyed by the UK geography, and Bytes Technology Group UK is by far the largest contributor to revenue, at R5.3bn, with combined SA ICT operations contributing R3.6bn. Group normalised earnings before interest, taxation, depreciation and amortisation (ebitda) rose 16% to R686m.

Bytes Technology Group UK saw its revenue more than doubling, up 104% in pound terms, helped by the acquisition of Phoenix Software in September 2017. It is now the top Microsoft partner in the UK. Bytes Software Services secured a five-year, £150m contract with the UK National Health Service.

Stripping out the impact of Phoenix, organic revenue



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growth was still an impressive 45% and ebitda growth was 29%. CEO Mteto Nyati says many operations within the group have delivered more than 20% ebitda growth and all the struggling businesses from several years ago are now producing in the double digits.

Netstar, with an ebitda margin of 35%, contributed notably, at R258m, with improved subscriber growth, particularly in the stolen vehicle recovery business. In pound terms, UK ebitda grew 84% on the comparative.

Free cash flow rose 220% to R295m, return on capital employed was 19%, and normalised headline earnings per share rose 25% to 71c.

## THE MAKEOVER HAS CHANGED IT FROM AN INCOHERENT ELECTRONICS CONGLOMERATE INTO SOMETHING WITH COMMON PURPOSE

Nyati and his management team have lofty ambitions, aiming to double ebitda in five years and become number one in the market place. Plans include establishing a presence in India through Netstar, where it has signed a joint venture with C Ahead Technology to offer insurance and fleet telematics.

Ian Cruickshanks, chief economist at the SA Institute of Race Relations, says: “Altron is going in the right direction now. Look at where it has been. This reorganisation and streamlining of the business makes Altron a long-term buy.”

At about R18, the share price is still a long way off its record high of R51.50 in May 2007, but at least the upwards trend appears to be intact. The share price troughed at about R4 in November 2015 and has since more than quadrupled in value.

Aside from the virtually untradeable Ayo Technologies, Altron is the largest market capitalisation share in the computer services sector, significantly more than Datatec, AdaptIT and EOH.

With dividends now resuming, and a nice balance between hard and soft currency earnings, there appears to be much promise in this new, slick, lean and mean Altron.