

FINANCIAL MAIL

PSV HOLDINGS

Good deal for the patient

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By Larry Claasen

It's time for value investors to start getting excited when a company turns in strong results yet its share price does not recover. Industrial engineering group PSV Holdings is one such company. Its share price fell from a high of R1 at the end of last year to 40c. It remained there despite pushing revenues up 46% to R174,7m and operating profit up 23% to R16,8m for the half-year to end August.

The slowing economy has shown no signs of stalling PSV. It has even expanded production capacity by 60% to cope with the expected growth.

Some investors are starting to take an interest. Imara SP Reid analyst Warwick Lucas rates it as a "spec buy". Lucas thinks PSV's shares have been oversold during the recent shake-up on equity markets. A research report released by independent analyst Robin Pegler in August concurs with Lucas's view. Pegler rates the share as a "long-term buy".

At a time when the wobbling rand and high interest rates are dampening spend, PSV CEO Abie da Silva is so confident that his group is investing R10m into upgrading production facilities.

PSV is one of those specialist engineering companies that has found a home on AltX. It makes a range of industrial pumps and manufactures waterproof linings for landfills and dams.

Da Silva's optimistic outlook also reflects that of other companies exposed to what has become increasingly known as the infrastructure economy. Government, along with state-owned enterprises Eskom and Transnet, has committed to spending R423bn at last count on upgrading infrastructure. Eskom's expansion plans also suit PSV, as the utility will need pumps for its generation and cooling systems.

With an order book of R151m, PSV has already tapped into this spend.

Da Silva says the group is looking to grow organically and that is why it increased its production facilities. The upgrading of PSV's production facilities explains why its cash holdings fell from R25,8m at the beginning of the period to R12m at the end, and why property plant and equipment in its balance sheet increased from R20m to R52m.

Da Silva says the products PSV makes are not glamorous but are niche goods that are essential to many industries.

The group is not only looking at the SA market, it is also growing its export operations. It has a significant Zambian operation and has even exported pumps as far as Iraq and lining to Kazakhstan and Tajikistan.

About 50% of its revenue is derived from exports but Da Silva is keen on expanding operations in existing markets and then going into new countries. This concentrated approach to exports is already paying off, with the group concluding a R51m contract in Namibia - its largest to date.

Investing in PSV does not come without risk. Pegler's report says "someone who wanted to get out of the AltX at all costs would drive down the price disproportionately as the shares are less marketable". But they have been sold down to a point where it is unlikely they can fall much further. "For a patient investor, the rewards should outweigh the risks," says the report.



EXPORTS PUMP PROFITS

- PSV has a Zambian operation that services the mines on the Copper Belt
- PSV has exported pumps and lining to Iraq, Kazakhstan, Tajikistan, Nigeria, Algeria, Uganda and Singapore. About 50% of its R174,4m revenue is derived from exports
- The group is keener on expanding its operations in existing markets than going into new countries
- This concentrated approach to exports is already paying off, with the group concluding a R51m contract in Namibia - its largest to date