

PORTFOLIO PUNTS

PSV HOLDINGS

Interesting value proposition

INDUSTRIAL ENGINEERING company PSV Holdings looks a most interesting proposition for those punters with a penchant for seeking out value among smaller cap stocks. At the time of writing PSV was trading at 40c on the JSE, giving the group a market capitalisation of around R108m. At those levels there are a couple of matters punters may want to consider.

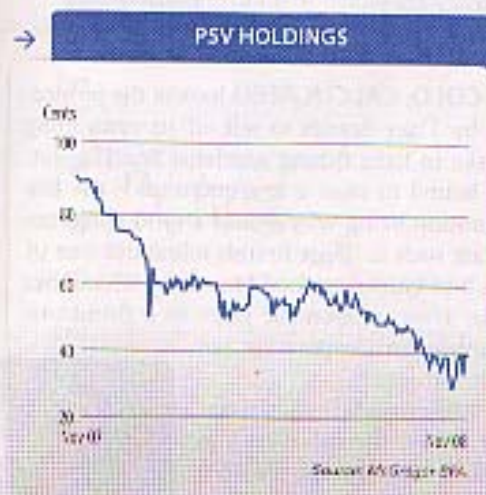
- Interim profit for the half-year to end-August was R12m, translating into core operating earnings of 6c/share. With a confirmed order book of R150m to hand it may not be amiss to speculate that PSV could – notwithstanding the tougher economy – conservatively

generate earnings of 10c/share. That would put PSV on a modest forward earnings multiple of four times.

- PSV has a tangible net asset value of 40c/share. In other words, at current levels investors are buying the assets of the business and getting the profit potential for free.

Naturally, the increasingly dour economic outlook has dampened sentiment for infrastructure-aligned stocks on the JSE – especially those listed on the AltX. But the beauty of PSV is that it provides essential services. When a pump or a valve breaks it usually has to be replaced or fixed – and quickly, too. Further benefits could flow from Government infrastructural projects, as well as from Eskom's essential spending.

Some punters may fret about its interim cash flow, which turned negative after investments in inventories and debtors, plus a R10m injection into its APE Pumps and Dasher subsidiaries. But if PSV can



maintain its trading margin at around 28% its second half cash flows should be far more reassuring. Net cash on hand is worth 5c/share – although dividends are unlikely over the short term.

Worth accumulating, methinks...

MARC HASENFUSS