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TRADING

ARB driving ahead despite ups and downs

TECHNICAL ANALYSIS
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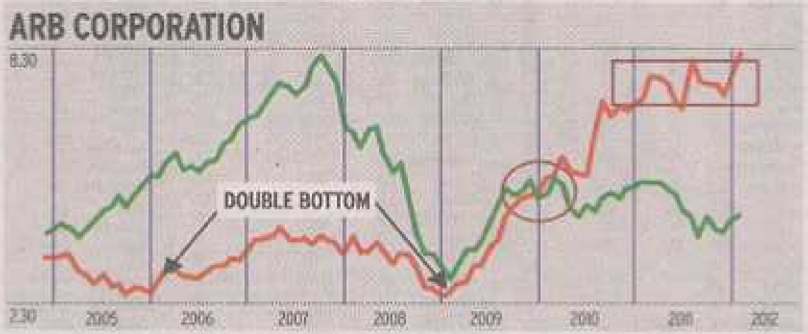
MOST stocks run on the smooth highway of the general market. But ARB Corporation, which manufactures, distributes and sells accessories for four-wheel-drive vehicles, has been in off-road mode for most of the past seven years.

A quick look at the graph provided by Rob Shelley, a councillor with the Australian Technical Analysts Association and director of Total Trading Concepts, shows that while the market boomed between 2005 and 2007 ARB ground along in a trajectory well below the S&P/ASX 200 Index. When the market tanked in early 2009, so did ARB, recording what technical analysts know as a "double bottom".

Shelley says in retrospect the double bottom was in fact a sign of strength. Many stocks in that period fell way below where they had been back in 2005, making "lower lows" as they reached nadirs not seen for many years and in some cases, ever.

When the market reached its 2009 low, ARB changed into low range and began to climb. It followed the market trajectory upwards until early 2010. Then, when the market turned down, ARB diverged (at the red circle) and its share price continued to grow.



Shelley says it has been in an uptrend since 2009. This uptrend moved into its consolidation phase about a year ago, with the stock trading between $7.30 and $8.30 (represented by the red rectangle on the graph) and last week broke out to hit $8.80. That breakout may be caused by an coming dividend payment. If the breakout lasts and the share price beats the upper-level resistance that affected it over the past year, it could move to $10, Shelley says.

ARB is up 33 per cent since it took a dip with the market route last September and up 333 per cent since its nadir around $2.60 back in early 2009. Meanwhile, the S&P/ASX 200 Index has risen only 36 per cent since March 2009.

ARB has a market capitalisation of $267 million. Its dividend yield is a fairly miserly 2.7 per cent compared with its market sector level of 5.2 per cent. But it has returned investors 16.1 per cent, mainly on share price rise, in the past year and a stunning 55 per cent a year over the past three years.

Over 10 years the figure is a still very respectable 18.7 per cent. Earnings per share are expected to be stable this year at 52.9 per cent and are predicted by analysts to jump to 62.5 per cent next year.

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