

Steinhoff aims for African champion

By Ann Crotty

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Christo Wiese's determination to consolidate his retail holdings in one entity and the Public Investment Corporation's affection for the notion of an African retail champion are behind plans for Steinhoff Africa to acquire a controlling stake in Shoprite, analysts say.



But the proposed deal, which would create a powerful retail player, might struggle to get competition approval. The Competition Commission's growing concern about the consolidation of power in the economy could significantly delay the finalisation of the deal.

Shoprite is one of the big four grocery retailers being investigated by the commission's inquiry into the sector.

Shoprite's shares fell more than 5% to below R200 on Monday in response to Steinhoff's announcement on Friday. They recovered part of the loss before Monday's close and on Tuesday, traded slightly above R200. By then, the Shoprite shareholders also had to contemplate a hefty R1.7bn cash payout to former CEO Whitey Basson. The repurchase of 8.7-million of Basson's shares will result in a significant hit to the group's cash position.

The listing of Steinhoff Retail Africa (Star), which has been on the cards for some time, is set to be completed by the end of September unless market conditions deteriorate drastically. It will contain high-profile brand names such as John Craig,

Shoe City, Russells, Bradlows, Incredible Connection, Hi-Fi Corporation and Timbercity.

Friday's announcement made it clear Star would remain a subsidiary of Steinhoff. "Star will continue to benefit from group sourcing, scale advantages, shared best practices and strategic direction, allowing it to effectively compete in Africa with domestic and international retailers," said the company.

The scale advantages that Steinhoff enjoys are expected to cause some difficulties in getting the proposed second phase of the transaction approved. That phase could see Star acquiring 22.7% of the economic interest and 50% of the voting rights in Shoprite. The option to acquire the stake has been pitched at R215 per Shoprite share.

The competition authorities may baulk at the prospect of the creation of a powerful retail entity, which Star would be if it had control of Shoprite. It would increase its scale advantages substantially to the possible detriment of local suppliers.

Star will fund the deal by issuing shares after its listing. It has been structured so that no offer has to be made to Shoprite minority shareholders, although there is a change of control.

"It's legal, but doesn't feel right," said Fairtree Capital's Jean-Pierre Verster.

Source: Business Day

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