Steinhoff and Shoprite down on takeover talks

By Hanna Ziady

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The share prices of Steinhoff and Shoprite plunged on Wednesday following the announcement that the retail conglomerates were discussing a potential merger of their African retail interests to create a "retail champion" on the continent.

Control: Christo Wiese's tie-up strategy with Shoprite could see Steinhoff swallowing some Brait assets.

Picture: BDlive/Hetty Zantman

Both stocks fell more than 7%, as shareholders were left in the dark over the finer details of the deal, which would see Shoprite acquiring Steinhoff's African retail operations in exchange for Shoprite shares.

Steinhoff owns Pep, Ackermans, Hi-Fi Corporation, Timbercity, Pennypinchers, Tekkie Town and Incredible Connection, among others.

Steinhoff would acquire the Shoprite shares that are held by the Public Investment Corporation and by billionaire Christo Wiese (through Titan Premier Investments) in the form of a Steinhoff-for-Shoprite share exchange at a ratio still to be agreed, the companies said.

The deal could trigger a mandatory offer to Shoprite shareholders based on the same exchange ratio, they said.

Shoprite shareholders might have been expecting an offer to buy the whole business at a premium, leading to a sell-off in the shares, said Sasha Naryshkine, portfolio manager at Vestact.

Shoprite's shares are up nearly 25% year-to-date, while Steinhoff shares, which rallied last week, are down.

Steinhoff could ultimately acquire control of the new company, Retail Africa, which would have had annual revenue of R200bn and earnings before interest, tax, depreciation and amortisation of R15bn for the year to June 2016, the companies said.

Rumours of a tie-up between the two have been swirling for months, as speculation grew that Wiese was moving to consolidate his business interests under the Steinhoff roof.

Wiese owns 16% of Shoprite and 18% of Steinhoff, but the billionaire has controlling voting rights in Shoprite through deferred shares.

Wiese's interests were converging and it appeared that Steinhoff would be the primary vehicle to hold them, said Chris Gilmour, investment analyst at Absa Wealth and Investment Management. "This is just the first step. I suspect eventually you're going to see the whole of Shoprite going into Steinhoff."

Wiese's vision was much bigger than just this tie-up and the strategy could even see some of Brait's assets, such as New Look, pushed into Steinhoff, Gilmour said.

Wiese is a controlling shareholder in Brait, a private equity company that holds 80% of Virgin Active.

Steinhoff, with a primary listing in Frankfurt, where the shares were down on Wednesday by a similar margin, has businesses in the UK and the US adding to its existing assets across Europe.

Steinhoff's South African shareholders, who had bought the stock as a rand hedge for its significant offshore exposure, might have been disappointed at the new group's focus on Africa, Naryshkine said.

The proposed transaction would expose Steinhoff's African assets to additional growth opportunities on the continent within a separately listed entity, the companies said in a statement.

Retail Africa, which operated in 14 countries outside SA, would offer better growth and margin-improvement opportunities than current individual businesses, they said.

It was positive that two large, long-term shareholders backed the deal, Naryshkine said.

Historically low interest rates in Europe would also ease the ability to access funding to grow the business, Naryshkine said.

A large retailer would be positive for consumers, offering discounts across a range of goods in the same vein as a Walmart, he said.

It was unclear at this stage whether the transaction would be subject to approval by competition authorities, but overlaps in product lines were in any event probably relatively minor, said Nick Altini, a partner at Baker & McKenzie.

Source: Business Day