Ramaphosa prepares for Shanduka exit

By Allan Seccombe

4 Jun 2013

Shanduka Group is preparing itself for life after its executive chairman, Cyril Ramaphosa, steps down and is looking for opportunities to grow three core areas of its business.

Shanduka, which is synonymous with Ramaphosa, now the deputy president of the ruling African National Congress (ANC), has brought new talent into the business, says chief executive Phuti Mahanyele.

Ramaphosa, a political and labour union veteran, has been stepping off a range of boards to avoid conflicts of interest since he was elected as deputy president of the ANC in a bruising political battle in Mangaung last December.

Mahanyele declined to comment on when Ramaphosa would quit the company in which a Ramaphosa family trust owns a 30% stake, the single largest holding in the unlisted group. However, she says the group, which has a broad range of investments in resources, food and beverages, infrastructure and the financial sector, was preparing for his departure.

"One of the things we've been doing is making sure we improve and add more skills and what we have a very robust team," Mahanyele says.

"Most of us have worked with the chairman for many years. If anything were to change there would be no changes in how the businesses are run; the ethos, the values, all of that will continue along the same trajectory," she says.

Investments and trusts

It's not clear whether the trust will remain invested in Shanduka after Ramaphosa's exit, but there are empowerment requirements for the group that must be considered, she says.

The group is 51% black owned, with a range of broad-based trusts holding 18% of the business, making it a valuable empowerment partner for a range of companies in which it is invested.

"In the nine years I've been here we've always operated very much as a corporate business. We've never worked closely with the government or on government projects.

"Now that the chairman is the deputy president of the ANC, it's something we are very mindful of and I'm sure he will do whatever is necessary to ensure we don't find ourselves in a situation where we are facing conflicts," she says.

Corporate governance questions were raised in December last year when Shanduka bought a minority stake in MTN Nigeria for US$323m because Ramaphosa was then chairman of MTN. Both companies denied any wrongdoing.

Steel investments

Shanduka has joined forces with Bidvest in competing for Macsteel Service Centres SA (MSCSA), a subsidiary of privately held Macsteel Holdings. MSCSA, a steel manufacturing, trading and shipping company, has more than 70 steel service centres in Africa and a workforce of 5,000 people. Shanduka owns about 7.5% of MSCSA as part of an empowerment consortium. It has a small holding in Scaw Metals, which is a South African steel company.

Shanduka Group has reduced its exposure to resources from 76% to just 35% largely as a result of investing in other sectors and streamlining its holdings in the mineral sector.

The biggest disposal was the sale in 2011 of its 11.8% stake in Assore, a tightly held iron ore and manganese company, for R2.7bn, because there was scant chance of it taking a bigger percentage of the company,

Mahanyele said. Shanduka is invested in coal, platinum and gold. It has a controlling stake in Shanduka Coal, with a 50.1% holding. Glencore Xstrata owns the balance, giving the entity a marketing arm for its coal.

Shanduka is unlikely to look outside those three commodities for growth, but will consider opportunistic deals if they arise, Mahanyele says.

Looking for growth

Shanduka is looking for growth options in platinum and gold, she says. "Notwithstanding the difficulties in resources, labour issues and increasing costs, we still remain quite keen to invest more in the sector."

Shanduka holds an indirect 9% of Lonmin, the world's third-largest platinum miner and is exploring an option to buy Lonmin's Limpopo operations, a deal that has been put on the back burner because of market conditions and metal prices.

It has held talks with the state-owned financier, the Industrial Development Corporation, about buying its stake in Incwala Resources, which owns 18% of Lonmin. Shanduka owns half of Incwala and wants to buy the IDC's 23% according to Mahanyele.

"We are looking at other opportunities in platinum and within a year Shanduka should be able to announce a deal," she says.

Shanduka is the 25% shareholder in gold and platinum company Pan African Resources. Growth in gold could come either with or outside of Pan African, a 200,000oz-a-year gold producer, but Mahanyele says Shanduka will not look outside SA for acquisitions.

"Shanduka and its partners have about all the assets they want, with little to buy in the Mpumalanga coalfields in which their operations are based," Mahanyele says.

By taking operational control of its first mining company, management's attention has been shifted to dealing with labour and community issues as well as managing the assets, she says.

"Our mindset in the organisation has changed quite dramatically. In the past we focused on execution of (merger and acquisition) deals. Now, most of our time is spent with labour and community issues, so we had to staff up to deal with those matters."

Ramaphosa last year ordered a review of Shanduka's mining assets, with a view to tackling labour and community problems that have beset other mining companies.

"It is beyond the scope of mining companies to address the ills of the industry and it will take the participation of various government departments and organised labour to resolve them" Ms Mahanyele says. "It's something that's got to be led by the government to find resolution."

Core business

Shanduka has narrowed its core business to three key areas, being food and beverages, resources and infrastructure, which includes telecommunications, and power generation.

"Growth for Shanduka will be within these three areas," she says." It will hold on to cash-generating, strategically important assets outside of those areas," she adds.

Assets within those three divisions could be listed on the JSE.

Shanduka owns 70% of fast-food outlet McDonald's SA, which has 178 outlets countrywide.

It is keen to expand that brand to the rest of Africa but can only do so with the consent of the US-based parent company. McDonald's in SA faces competition from rival Burger King, which opened the chain's first outlet in SA last month, with the intention of taking about 10%, or R2bn, of the annual quick-service restaurant business locally.

"It's not easy to come into this market. They're coming in at a difficult time when consumers are focused on value offerings," Mahanyele said. "They also need to find suitable real estate, which we and our competitors have done. We have a strong expansion strategy. It's not because of Burger King but because we believe in this market."

Shanduka has grown its African portfolio to 20% of the group's business from about 1%.

Source: Business Day via I-Net Bridge