

Market likes Ellerine move

Means retailers may face competition hurdles; private equity funders could wade in.



Of three deal announcements made earlier last week, the prospects of African Bank Investments Ltd (Abil) selling its struggling furniture retailer, Ellerine Holdings, was the most market moving.

But if the deal is successful, it is likely to be smaller than the other two deals, announced by Anglo American and SABMiller.

Abil's shares rocketed 26% to R8,47 on Monday on news that it was negotiating a deal to sell the furniture retailer. A number of analysts expect that the transaction's value will not exceed R1bn, if Abil hangs on to the furniture loan book. Abil CEO Leon Kirkinis bought Ellerines for close to R10bn six years ago, through a share deal.

Looking for a buyer

The other deals are much larger. Anglo American wants to sell its 50% interest in Lafarge Tarmac to Lafarge for a minimum value of \$1,5bn, while SABMiller is looking for a buyer for its 39,6% shareholding in Tsogo Sun, valued at R11,7bn. Both are set to be fairly straightforward sales.

The sale of Ellerines has generated much speculation. The market has mixed views on whether Abil would be bought out by a trade buyer in the retail sector or a private equity concern with the energy - and money - to turn it around.

One view is that Ellerines could fit into an existing retailer with enough capital to drive sales. The other is that the retail environment is subdued and any large retailer with its eye on the company will have trouble convincing competition authorities that a merger won't give it market dominance.

"My view is it will be a trade buyer. I think it's fair to say whoever buys it is going to break it up. I don't believe Ellerines will exist in the form that it is now," independent analyst Syd Vianello says.

"The large pieces, I think, will go to a trade buyer who can offer credit. These businesses are reliant on credit," he adds.

Multiple brands

Ellerine Holdings is behind furniture retail brands like Ellerines, Wetherlys, Dial-a-Bed, Beares, Furniture City, and Geen & Richards. It has stores in SA, Namibia, Botswana, Swaziland, Zambia, and Lesotho.

The Abil retail division, which houses these brands, posted a headline loss of R1,2bn in the six months to March, as sales fell partly due to a tough economic environment and cutbacks on credit. Credit sales declined by 28% to R1,1bn compared to R1,5bn during the corresponding period in 2013.

The credit sales mix in the Abil retail business dropped to 54,8% in the six months to March, compared with 64,2% previously.

Shoprite did not want to comment on rumours, while the retailer's chairman Christo Wiese insisted that "Shoprite is not buying Ellerines".

Take the plunge

If a company the size of Lewis Group were to buy Ellerine Holdings, an analyst says it would have to make shareholders aware that it was trading under a cautionary, through the JSE's news service.

Another analyst expects a private equity player to take the plunge.

"There has been a lot of speculation that it might be Steinhoff. Though that might be a challenge with the competition commission," the Cape Town-based analyst says.

The active big private equity players in SA are Actis and Ethos. Both are about to exit their Alexander Forbes investment, making it likely that they are on the money trail again.

Ethos said it would not comment on market speculation.

Source: *Financial Mail*, via I-Net Bridge

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