

FEATURES

EMPOWERMENT

Picking up speed

Benefits go beyond "usual suspects" but has the pendulum swung too far?

The rising number of black economic empowerment (BEE) shares offered to the public suggests a turning of the tide in the BEE game.

The trend represents some vindication of the broadly representative civil outcry against the hogging of a BEE windfall by a few players, mainly politically connected individuals. It seems that an old struggle slogan is apposite: the people have spoken!

The response to the most recent public

offers has been vibrant, as if to guard a hard-earned victory in the battle to broaden the benefits of BEE.

The R7,5bn public invitation by petrochemical giant Sasol received overwhelming support, to the point of being four times oversubscribed. The offer formed part of Sasol's R26bn BEE deal designed to benefit a wide range of sectors, including employees and strategic business partners.

Sasol's public offer represented 30% of

the total BEE deal.

The company has described the outcome of the public scheme, called Inzalo, as testimony to the validity of the broad-based principle.

Says CE Pat Davies: "The success of Inzalo has been way beyond our expectations, and the consequence of this unprecedented response is that the transaction will not be able to accommodate everyone to their full expectation."

Two other major schemes are in play. These are from mobile phone network operator Vodacom and financial services group African Bank Investments Ltd.

Telecommunications giant Telkom pioneered the trend of BEE public offers when it listed a portion of its shares in 2003. In a scheme called Khulisa, Telkom issued BEE shares to qualifying members of the public at a 20% discount to the debut market value.

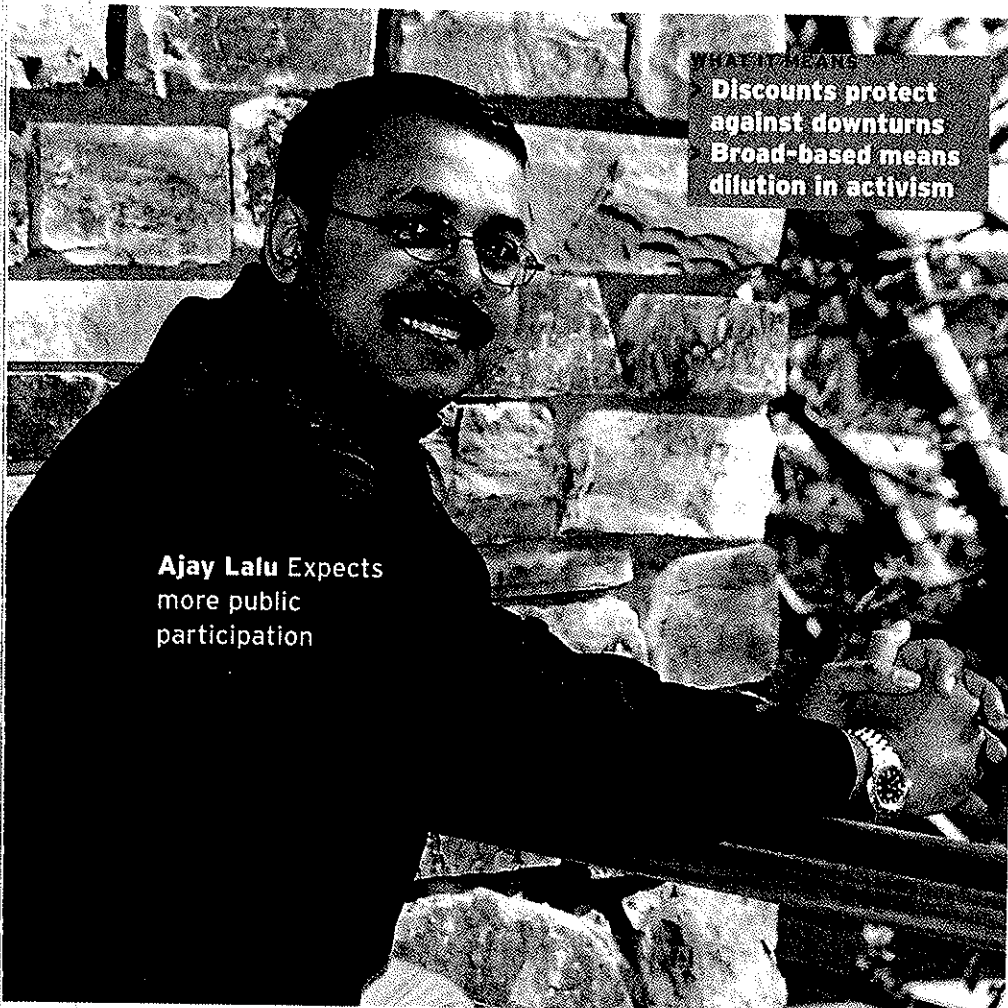
Since then a few other giants in the corporate landscape have joined in, including Nedbank and Naspers.

The National Empowerment Fund (NEF) kick-started a process of distributing some of its assets to the public by offering MTN shares at a 20% discount last year.

More such schemes are expected from listed companies in the next few months. This is despite concerns of too little, too late. Ajay Lalu, a partner at Bravura Economic Empowerment Consulting, says: "While a large bulk of high-profile BEE deals have already been done on the JSE, I expect to see more public participation in the deals still to come."

The days of "usual suspects" in the BEE arena are long gone, says Lalu. Public participation should be welcomed because it addresses a number of critical areas. While fulfilling the call to broaden the empowerment cake, the public offers help to educate people about investing on the JSE, says Lalu. It's a good stepping stone for people who otherwise would not have done so, to create wealth through investment.

Lalu says public offers also come with the attraction of brand-building and customer loyalty for companies that deal directly with the consumer. It is for this reason that Lalu expects retailers to join the string of BEE public offers. These may include furniture retailers like JD Group and chain stores like Pick n Pay, which have been hounded for their lack



Ajay Lalu Expects more public participation

Discounts protect against downturns
Broad-based means dilution in activism

Name of company	Stake offered to BEE public	Total value	Discount at issue date	Issue price	Minimum entry value	Year of issue
Abil	1,4%	R320m	30%	R10	R700	2008
Media24	15%	R730m	Geared	R50	R200	2007
MultiChoice	15%	R2,2bn	Geared	R50	R200	2007
MTN/NEF	0,5%	R1,3bn	20%	R80	R2 000	2007
Sasol	3%	R7,5bn	11%	R366	R500	2008
Telkom	1,5%	R112m	20%	R22,40	R500	2003
Vodacom	1,8%	R2,2bn	10%	R25	R2 500	2008

The figures above only serve to indicate the significance of public offers at the date of announcement. Many do not reflect the current state of things as some of the deals have already matured and values of the investments have changed. The Vodacom and Abil deals are still to be effected. The Sasol deal came with two options which are the cash and funded option.

SOURCE: FM RESEARCH

of BEE ownership.

In addition to spreading BEE benefits, these schemes come to promote a culture of savings in the country, says Kevin Lester of BEE consulting agency Transcend.

The 20%-25% discount that seems to be a benchmark in these deals creates a buffer to protect BEE investors when the markets turn. And in the long term, given that these schemes are generally offered by blue-chip companies, the upside potential is splendid.

"These schemes fall short in creating a meaningful shareholder base"

- KEVIN LESTER

Investors who participated in the Ned-bank scheme, which offered four shares for the price of three — an effective 25% discount — stand to make a profit even though the financial sector has lost significant value in the past few months.

"In some of these schemes, people will get returns that should come to beat Warren Buffett," says Chia-Chao Wu, executive director of BEE rating agency Empowerdex. He refers particularly to the gearing innovation that has been introduced to these BEE public offers.

This allows members of the public to enter the schemes below the already

discounted strike price.

This was used first by Naspers and then Sasol. In simple terms, an investor provides 10% or 20% of the strike price and borrows the rest from a bank. This is obviously done on the assumption that income generated by the underlying asset will, over time, produce dividends that outstrip the cost of borrowed capital, and then deliver unencumbered value in future.

In the Sasol deal, investors were given an option to choose between a straight cash purchase and a funded (gearing) entry. Sasol's funded option allowed participants to get in with shares issued at R366/share with only about R20/share. The balance was then funded through debt, backed by a preference share structure.

The funded invitation received the bulk of the applications, says Sasol. A total of 309 000 applied for Sasol's BEE shares, compared with the group's target of 200 000. The majority of applicants are individuals seeking 200 shares or fewer.

In dishing out 15% of Media24 and MultiChoice to the public, Naspers exclusively engaged the gearing option, also backed by a preference share structure. In deals worth R2,2bn and R730m respectively, Naspers invited black individuals to subscribe for shares worth R50 in the two operations at R10/share. More than 100 000 were attracted.

The challenge is to ensure that these shares are held for the long term, says Lalu, "because their maximum value can only be realised in the long term".

Not everyone is excited about the increase of BEE public offers. Though the advantages from the individual's point of view are widely accepted, the debate

about the strategic significance of these deals rages on. There is a concern that handing out shares to a thinly spread BEE base will come to defeat transformation-orientated shareholder activism.

Though these schemes are good for spreading wealth, they should not be seen as the panacea for the whole BEE challenge, says Transcend's Lester: "They fall short in terms of creating a meaningful shareholder base to drive transformation in corporations."

According to a prominent BEE player, though public schemes "feed a high moral agenda, they come to reinforce the short-sighted 'black diamond' culture in the BEE space". The view is that BEE was conceived to help create a meaningful black capitalist class, and not dish out shares that in a few years will be cashed in for short-term gain.

Prominent BEE player Ronnie Ntuli wrote recently: "While the model adopted by Sasol is positive, it is necessary to caution that BEE transactions that focus solely on a broad-based black shareholding, to the exclusion of a cohesive channel through which the partners can express their voice, fall short in terms of the objectives of economic transformation."

Sibonelo Radebe

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