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EDITOR'S NOTE
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Phuthuma Nhleko

Share offers - MTN

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Zweli Mokgata | Thursday, 14 Oct 2010

Xolisa Vapi, MTN Group's acting group executive for corporate affairs, says the public's response in the first two weeks has been higher than for BEE offerings handled by the SA Post Office in the past

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Observers say MTN's latest black economic empowerment (BEE) public share offer, MTN Zakhele, valued at R8,1bn, may be attracting a great deal of interest but investors should be aware of the inherent risks that come with investing in equities.

Xolisa Vapi, MTN Group's acting group executive for corporate affairs, says the public's response in the first two weeks has been higher than for BEE offerings handled by the SA Post Office in the past. "This impressive response shows demand for this type of long-term investment among black investors."

According to Rand Merchant Bank (RMB) co-head of corporate finance Paul Roelofse, who advised MTN on this second offer under outgoing CEO Phuthuma Nhleko, a R20 Zakhele share (the price at which the MTN shares can be bought as part of the offer) would be worth R50 after deductions if the MTN share price had risen to R128 (as at the start of the week).

"It's difficult to forecast what the value will be in six years' time [the share sale has a lock-in of six years]; you'd have to make certain assumptions." At an MTN share price of R175, a Zakhele share would be worth R84.

Though such schemes appear to offer stakes in established companies, analysts question their effectiveness.

"What Zakhele is offering is not a discount," says Chris Wood, a portfolio manager at Prudential. "You are still buying at R100, but the company is providing funding. You still owe MTN the full R100. It has the right to claw back shares at the end of the term to cover any outstanding debt.

"It's very vanilla in its structure. If earnings grow ahead of expectations and the company declares a special pay out, it will allow the investor to pay off the debt quicker. This gives the scheme a better chance of success. It's almost identical to the MultiChoice scheme in the way it's been conceived. I think MTN is well positioned to grow earnings on its current base, and has a wide footprint in Africa, where penetration for cellphone usage is low. This scheme has the best chance of being successful; the catalyst will be a windfall dividend pay out by MTN," he says.

Alana Bond, MD of BEE consulting firm Bravura, says there are better ways for companies to involve BEE investors. "There are all sorts of challenges with these schemes," she says. "Sasol's Inzalo scheme, for example, came at a 14% discount, but when the Sasol share price went down, it completely wiped out the discount. This [MTN Zakhele] is a typical share price-dependent, dividend-dependent structure.

"History shows that dividends are not enough to pay debt. Shareholders usually have to sell large portions of their shares to service debt at the end of the lock-in period," she says.

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Since mid-2008, Sasol's share price has dropped from R500/share to around R315, a loss of 37% on the Inzalo offer.

Bond says a better option would be a private equity-leveraged model where a portion of the existing business is sold to a new holding entity.

"This structure ends up financing the deal from the cash flow of the business rather than dividends. This creates real value for BEE shareholders who can participate in the business. And the balance sheet is not affected."

Independent financial adviser Antony Brady says though MTN is a growth stock he recommends to clients, the Zakhele offer is risky.

"I'd advise them to take advantage of this offer, but not to put up money they can't afford to lose. You're buying an equity, so there is risk. With unit trusts and ETFs, the portfolio is diversified and there is less risk. With Zakhele, you are putting all your eggs in one basket."



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