

Wal-Mart's R16.5 billion bid for SA's Massmart official

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Global retail stalwart Wal-Mart has made its intentions official, it has made a R16.5 billion cash offer to acquire 51% of South African wholesaler Massmart at R148 per Massmart share.



"The offer represents a 19.2% premium to the 30-day weighted average price on September 23, the last trading day prior to the indicative offer announced on 27 September 2010, has been unanimously recommended by the Massmart board of directors," said Wal-Mart.

"Massmart's shares closed Friday at R141.70 on the JSE.

"Massmart will continue to trade on the JSE if the deal is completed.

"Speculation of Wal-Mart's interest in South Africa first appeared on the retail radar early last year after rumours that it had met with several of South Africa's key retailers.

"Wal-Mart's attention has in recent years been focused on growth in emerging markets since a saturated home market has slowed US expansion.

The chosen one

Massmart proved to be the chosen one after it announced on 27 September that it had received a non-binding proposal from Wal-Mart to buy its entire issued share capital for R148 per share, in a deal that could have lead to a R32 billion offer for the consumer goods distributor.

Last month however, Wal-Mart said it was considering a smaller stake in the group after meeting with major Massmart shareholders and key South African stakeholders.

There has been much speculation over why Wal-Mart scaled back its offer but during a teleconference on Monday Massmart chief executive Grant Pattison said: "The smaller stake is not negative.

"If anything it demonstrates Wal-Mart's commitment to SA and how practical they are," he said.

Pattison added that 72% of Massmart's ordinary shares are foreign-owned by emerging market funds and that shareholders simply thought it was a great investment.

"They thought it would be nice going forward to be part of future growth.

"Shareholder's preferred a partial situation. 49% represents an attractive position and they're able to share in the upside," he said.

Shareholders don't want a complete sale

Last month, however, a retail analyst told I-Net Bridge: "What has become increasingly clear during these visits between Massmart and Wal-Mart are that Massmart shareholders are somewhat unhappy about selling out completely.

"It's not about the price, that's fine, what they're saying is that why should we give up our entire stake and the opportunities that go along with it for a cheque?

"Why can't we stay on board for the ride, they know that that they won't be able to reinvest their cash and get a good enough return anywhere else".

Another retail analyst said that a lesser stake would afford local investors to "bite into the juicy cherry that is Massmart."

"Once they totally de-list, then that's it. Local opportunity is gone," he said.

A vote of confidence

During the teleconference Pattison said the deal represented a milestone in the group's history.

"Wal-Mart's interest is a vote of confidence not only in Massmart but also in the strong growth potential of South Africa and the continent," he said.

Pattison stressed that if approved, the transaction promised to be positive for the economy - facilitating job creation and providing new opportunities for small and medium businesses.

Massmart is the 35th largest company on the JSE and its 53% food and beverage component provides the perfect footing for the global giant into the South African food market.

Andy Bond, executive vice president with responsibility for Wal-Mart's operations in the region, including the UK and Africa, said Wal-Mart believed bringing the two companies together would offer substantial benefits to Massmart customers, employees and shareholders, and would unlock new growth opportunities ahead.

"In addition to supporting Massmart's growth strategy, we believe Wal-Wart can drive meaningful value creation through enhanced buying efficiencies, expanded distribution and logistics capabilities and sharing of global best practices in retail formats and information technologies," he said.

The American behemoth has more than 8613 retail units under 55 different banners in 15 countries, racheting up total sales of US\$400 billion (about R2800 billion) in 2009, of which international sales accounted for 25%.

Unions oppose sale

Wal-Mart is known for its aggressive pricing strategies that attract thousands of customers into its stores around the world with the slogan: 'Everyday Low Prices.'

While customers are getting excited at the prospect of cheaper prices that the deal could bring and other multinationals lurk in the shadows eyeing SA with interest, the country's unions are waiting to pounce as soon as they smell an 'erosion of workers' rights.

The South Africa Commercial, Catering and Allied Workers Unions (Saccawu) and South Africa's largest labour federation, The Congress of South African Trade Unions (Cosatu) have been extremely vocal in their opposition for Wal-Mart and even launched an 'Anti-Wal-Mart' coalition earlier this month.

"We should be worried, very worried [about the bid], not only as workers and trade unions in the retail sector; not only as workers and trade unions in general, but as a country and citizens; if we really care about our developmental agenda and the stubborn legacy of apartheid that still lingers on and remains with us today," said Saccawu.

Importantly, Wal-Mart said it fully understands and is supportive of the constructive position that Massmart has taken on Broad Based Black Economic Empowerment (BEE), and expects to broaden and accelerate these efforts.

The offer remains subject to acceptance by Massmart's shareholders, as well as certain customary conditions and relevant regulatory approvals in South Africa.

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