Absa buys Edcon's store card portfolio

Yesterday, 6 June 2012, Absa and Edcon entered into a long term, strategic relationship, with Absa acquiring the accounts and receivables relating to the private label store cards of Edcon in South Africa, including Edgars, Jet and Boardmans brands. An extension of the agreement is that Absa will provide retail credit to the group's customers.

L - R: Louis von Zeuner (Absa Deputy Group Chief Executive); Maria Ramos (Absa Group and Barclays Africa Chief Executive); Mark Bower (Edcon Deputy CEO) and Charles Vikisi (Edcon Group Legal Adviser).

This deal, with a value of approximately R10 billion, sees the bank significantly increasing its net card receivables and more than doubling its number of active cards in the market.

In terms of the strategic relationship, the bank will have responsibility for credit, management of fraud, risk, finance, legal and compliance operations of the store card business. The transaction leverages the competencies of both parties, while ensuring a seamless customer experience.

Absa Group and Barclays Africa chief executive, Maria Ramos, described the agreement as a major milestone for both organisations. "This is a significant addition to our retail finance offering. Unsecured lending is a key market to channel capital into under-served communities, while adhering to responsible lending practices in the best interests of our customers and the bank. This relationship significantly strengthens our presence in this space."

The acquisition is in line with the bank's strategy to increase its proportion of the unsecured lending market.

"The two brands have a number of shared values which will allow us to leverage each other's unique strengths. Apart from allowing the bank to further extend its footprint in financial services, we will be building a strategic relationship with one of South Africa's leading retailers."

Edcon on growth drive

Edcon has been focused for several years on improving the performance and attractiveness of the credit book, which is an asset with over 3.8 million active accounts and customer reach across the full spectrum of consumers in southern Africa.

"Edcon is delighted to announce this deal, which is a natural evolution for the group and a key milestone of its strategic plan. This relationship combines our leading retail franchise and marketing excellence with the bank's exceptional funding strength and sound credit management," said Edcon CEO Jurgen Schreiber. "I am confident that this transaction will help us drive growth in the group's retail business."

Schreiber stressed that credit will remain available across all of its retail businesses and that both parties will balance continued growth of the credit book with appropriate credit quality.

"As one of the largest retail consumer finance businesses in the country, the group will continue to manage all customer-facing activities, including sales and marketing, customer service and collections, thereby ensuring there is no direct service impact on our customers. The bank will oversee retail credit policy, provide funding for the portfolio and work with the group to provide customers with a wide range of financial services products."

The group's joint venture, through which insurance products are marketed and sold to customers, is not included in the scope of the transaction.

The transaction proceeds will reflect the net book value of the portfolio at the close of the transaction and will be used for the repayment of debt (including notes issued in terms of the group's securitisation programme), investment in the business and cover transaction fees and expenses.

The store card business operates primarily in South Africa (approximately 94% of net receivables as at 31 March 2012), with smaller operations in Botswana, Namibia, Lesotho and Swaziland. The net book value and number of active accounts referenced above refer to the entire portfolio. While it is the intention of the bank (or one of its affiliates) to acquire these portfolios in the neighbouring countries, it is not a condition precedent to the South African transaction.

Completion of the acquisition is subject to regulatory approval and other customary conditions and the transaction is expected to come into force in the second half of 2012.

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