Distell share surges on sell-off ruling

By Ann Crotty

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The Distell share price has surged 6% since the Competition Commission ruled that SABMiller had to sell its 27% stake in the cider and spirits group.

Image credit: Distell.co.za

The strong move in the share price suggests investors are expecting a buy-out offer, or believe that the new control structure will have a positive effect on Distell's profitability.

On Tuesday, the commission announced it was recommending the conditional approval of the merger between Anheuser-Busch InBev (AB InBev) and SABMiller.

One of its conditions was that SABMiller dispose of its Distell stake within three years of the beer merger being completed.

SABMiller has been one of three controlling shareholders in Distell since a contrived structure was put in place in 1979. The other two are Remgro and Capevin, which have a combined 53% holding.

Remgro and Capevin issued a statement on Wednesday, acknowledging their pre-emptive rights and said they were awaiting SABMiller's response to the commission's condition, but would "act in the best interest of Remgro, Capevin Holdings, Distell and their respective shareholders". Remgro CEO Jannie Durand said on Thursday he could not comment on rumours about corporate transactions.

A Distell statement noted that, as SABMiller did not have any representation on the board and had never been involved in the management of Distell, "The disposal will not impact the way Distell operates." But Chris Logan, a long-term shareholder in Distell, thinks differently.

He says the departure of SABMiller can only be positive for the company. "There was essentially a cold war between SABMiller and Remgro for most of the past 37 years. SABMiller did not have any representatives on the board, but with its 27% stake, was able to block any special resolutions the Distell board might have wanted to pass."

Ironically, the 2013 appointment of former SABMiller executive Richard Rushton to the top job at Distell has helped to resuscitate flagging shareholder support for the company.

Of critical concern for minorities was that the impasse between the major shareholders prevented Distell from using its shares to fund acquisitions. This has meant it has been unable to get to the sort of scale needed to maximise profit margins.

Logan says the global spirits industry has been consolidating much like the beer industry has done in the past 20 years.

"There’s still time for Distell to pick up some gems."

The strained relationship between the three controlling shareholders is also thought to explain why there was no effort to enter into an international distribution deal with SABMiller for Distell’s market-leading ciders Hunter’s and Savannah.

In 2013, SABMiller signed such an agreement with one of the fastest-growing ciders in the world, Sweden’s Kopparberg.

Shareholders hoping that exercising a pre-emptive agreement will trigger an obligatory offer are likely to be disappointed. While Remgro looks the more likely buyer of SABMiller’s stake, any exercise of the pre-emptive rights would probably be deemed "a change of control within control", and not require an offer to minorities.

However, one analyst, who did want to be named in line with company policy, believes Remgro could take this opportunity to buy out all of the minority shareholders and delist Distell.

Allowing for employees and an empowerment scheme, the free float is estimated at about 10%. With full control, the Stellenbosch-based investment company might be more willing to pour in the money needed to realise Distell’s potential.

Source: Business Day