

# Sovereign blocks rival in BEE scheme

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Poultry group Sovereign Food Investments has tweaked its controversial black economic empowerment (BEE) deal, thereby saving a bundle in costs and precluding a competitor from "grossly abusing" an appraisal rights mechanism.



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The appraisal rights, which were tagged in Sovereign's initial empowerment deal, allowed shareholders to participate in a share buyback.

The empowerment deal was approved by 85% of shareholders, but was criticised for including white management rather than broad-based participants.

A number of dissenting shareholders, who represent about 10% of Sovereign's shares in issue, indicated their intention to exercise their appraisal rights at a general meeting last month.

Sovereign's new proposal, supported by 70% of shareholders, involves a new empowerment deal on similar economic terms, but with a revised repurchase offer envisaging the acquisition of a maximum 3.81-million shares (5% of the issued shares).

The total cost will be R32.4m — inferring a buyout price of 850c a share. Under the previous empowerment scheme,

Sovereign could have forked out more than R70m to buy out dissenting shareholders.

The cost saving in the revised repurchase agreement would be critical for Sovereign, with the poultry cycle at a delicate point, and the company having recently acquired a large production plant in Gauteng.

Vunani Securities small-to medium-cap specialist Anthony Clark said although the revised scheme might offer an elegant solution to a difficult problem, dissenting shareholders were likely to drag the matter out with legal challenges.

In a thinly disguised reference to unlisted rival CBH, Sovereign argued that the appraisal rights had been grossly abused. "Appraisal rights have not been designed to be taken advantage of by a competitor...."

At the end of last year, CBH prime mover Kevin James raised his stake in Sovereign, via two nominee companies, to close to 8%, executing a trade just days before the cut-off date to participate in the empowerment scheme.

Sovereign slammed this as a competitor's effort to frustrate the company's business strategies and initiatives.

Sovereign noted James had intended to exercise appraisal rights, through his associate entities, in respect of 8% of the company's issued shares.

"The board has reason to believe that the competitor's associates are now attempting to abuse a bona fide return of capital to shareholders ... as a platform to frustrate a number of Sovereign's legitimate and positive commercial objectives," it said.

**Source:** Business Day

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