

Nedbank spin-off talk gains traction

Statements by Nedbank and its parent Old Mutual yesterday fuelled speculation that Nedbank was once again up for sale or may be unbundled.



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Both confirmed that "all options" are being considered in a strategic review, sending Old Mutual's shares soaring 6.51% in afternoon trade in London, where it has its primary listing, while Nedbank's fell marginally.

Nedbank urged its shareholders to exercise caution while dealing in its shares.

"The strong share price move today does indicate that some market participants expect some unlocking of value in the near term," PSG Wealth analyst Adrian Cloete said.

Asked last week if the bank could be up for sale, Nedbank CEO Mike Brown did not confirm or deny anything, saying that the bank continued to collaborate and work with Old Mutual's South African arm.

"The parent company is best placed to answer," he said.

The strategic review was started by Old Mutual CEO Bruce Hemphill when he took over last year. He did not respond to queries sent to him at the weekend.

Reports have speculated that the review could result in a break-up of the group. OM Asset Management, Old Mutual's US-listed affiliate, had not issued any warning to shareholders at the time of going to print.

Results of the review will be unveiled on Friday, and if it is confirmed that Old Mutual will dispose of Nedbank, it will be the second of SA's big four banks to lose a parent. Barclays Plc said last week it would sell down its 62.3% stake in Barclays Africa.

Public Investment Corporation (PIC) CEO Dan Matjila, who had expressed enthusiasm for picking up more shares in Barclays Africa before Barclays Plc announced its intention to sell, would not comment on potential purchases of Nedbank shares.

The PIC is the bank's third largest shareholder.

"Old Mutual Plc has not made an announcement, nor has it provided details about possible restructuring of the group," Matjila said. "For this reason, the PIC is unable to make further comments."

Hemphill has already sold off the insurer's interest in fixed income boutique Rogge Global Partners, and parts of its Bermudan unit.

Yesterday there were mixed reactions from analysts on the two companies' statements, with one saying it could be due to JSE requirements; while another said there was a fair chance Nedbank could be up for sale, with regulatory red tape and investor sentiment turning against European companies with controlling stakes in foreign banks and insurers.

"Old Mutual may keep Nedbank as they are planning to get R1bn of synergies, but with the new capital requirements the current structure is less capital efficient than in the past," Mr Cloete said.

Former Old Mutual CEO Julian Roberts last year said the group was targeting pre-tax adjusted operating profit, cost and capital synergies of R1bn between Old Mutual's Southern African operations, Nedbank and Mutual & Federal - another affiliate - by the end of next year. It had identified half of these synergies by the end of 2014.

Nico Smuts, an analyst at 36One Asset Management said Old Mutual could be weighing up the relative merits of unbundling its Nedbank shares to shareholders against putting it up for sale.

"Old Mutual has a large South African shareholder base that would be happy to hold their Nedbank shares directly instead of via Old Mutual," he said.

But this approach had negative consequences, as the broad shareholder base would mean the bank would not have a shareholder large enough to act as its shareholder of reference - one that is able to step in in times of hardship. "Old Mutual SA could retain a large stake, but this may not be the most efficient use of its capital," said Smuts.

It was also likely that the group could hive off Old Mutual Emerging Markets together with Nedbank and Mutual & Federal from the rest of the group, listing them separately.

"Old Mutual could list the UK wealth business, but that means selling a portion of the business at a level that doesn't reflect the UK wealth business's full potential," said Cloete.

Smuts said separate listings could alleviate regulatory pressures in Europe, "as long as the UK-listed business no longer has an influential stake in businesses in SA".

Source: Business Day

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