# Steinhoff shares dive on suspected fraud

Steinhoff International's share price continued to plummet in heavy trade on Wednesday as fears mounted of long drawnout investigations by regulatory authorities in Europe, the US and locally in SA.




By the close of trade on Wednesday, the share price had recovered from the day's low of just less than R14, but few analysts were prepared to recommend either a buy or sell.

"Nobody knows the extent of the fraud, the extent of the revisions that will be needed or the extent of the fines that are on the cards from any of a number of jurisdictions," said one shocked analyst. It was impossible to know how to value Steinhoff right now, he said.

"It could be anything from R25 to minus R2. At the very least you have to deduct goodwill and intangible values, and then there are the debt covenants to consider," he said.

Fair Tree Capital's Jean Pierre Verster said it was not a foregone conclusion that the company would not drop to zero.

The company had R100bn of debt and it was impossible to know the real value of their trade payables. "And then there are possible penalties and class actions. Given the huge stakes involved, I really hope they can avoid the worst-case scenario," said Verster, who after detailed research into the group, started shorting the share early in 2017.

The tips of the iceberg had been evident in the public documents available to shareholders, Verster said.

One detailed research report by Viceroy Research Group describes an increasingly complicated series of transactions by Steinhoff using off-balance sheet structures in a process reminiscent of the controversial US energy company Enron's. The report details how two off-balance sheet entities, Campion Capital and Southern View Finance, were used to artificially inflate Steinhoff's earnings.

The fallout from the scandal could also deal a killer blow to plans by Steinhoff Africa Retail (Star) to acquire a controlling interest in Shoprite. Finalisation of the plan to create an African retail champion is dependent on a number of conditions, including competition authority approval. It was a long way from finalisation before Wednesday's announcement.

The news that long-serving Steinhoff CE Markus Jooste had resigned broke late on Tuesday evening, followed by a dramatic Sens announcement early on Wednesday. After months of denials the company said: "The supervisory board of Steinhoff wishes to advise shareholders that new information has come to light today, which relates to accounting irregularities requiring further investigation.

"The supervisory board, in consultation with the statutory auditors of the company, has approached PwC to perform an independent investigation."



Markus Jooste quits as Steinhoff CEO

Robert Laing 6 Dec 2017

While the list of casualties has so far been limited to Jooste and former chief financial officer Ben la Grange, who was Star CEO, it seems inevitable that the widespread nature of the allegations will draw in Christo Wiese. The German media has questioned whether Wiese is the most appropriate person to be executive chairman, even on an interim basis.

All the Wiese-related shares on the JSE were hit by the dramatic news, which has been described as "shocking but perhaps not that surprising".

Brait closed 6% weaker, PSG was down 7.6% on the day and Star took a 20% knock. Even Shoprite was hit, ending the day 4.8% weaker.

Wiese, one of the wealthiest men in Africa, suffered a R44bn hit on his Steinhoff shares alone on Wednesday. Billions more were wiped out of the value of his other holdings.

The Public Investment Corporation, which is also a major shareholder in the group and was a keen supporter of the Star transaction, did not respond to a request for comment.

The scandal is also likely to have reputational implications for Steinhoff's external auditors Deloitte, which signed off on years of annual accounts that may now have to be restated. Deloitte did not respond to a request for comment.

The JSE said on Wednesday it had not suspended Steinhoff's listing as there were no compelling reasons to do so. It requested details from Steinhoff regarding the "accounting irregularities" as a matter of urgency.

*Source: Business Day*

For more, visit: https://www.bizcommunity.com