

Fairfax's offer readies the field for a tug-of-war over correct value of PPC

By [Mark Alix](#)

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The naysayers are starting to crawl out of the woodwork over a proposed pan-African merger between AfriSam, Fairfax Africa Investments and PPC. Those publicly opposed to the deal now hold at least 25% of SA's largest cement group.



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SA's state pension fund manager, the Public Investment Corporation, holds about 66% of unlisted AfriSam and a major stake of about 15% in PPC. It is said to back the AfriSam-Fairfax offer. But little is clear about the outcome.

Fairfax's offer to buy R2bn of PPC ordinary shares at R5.75 a share is light years away from other valuations. These range from R8 to R10 a share.

The ball started rolling in early October 2017 when Prudential Investment Managers - holding about 14% of PPC - said the AfriSamFairfax conditional partial offer undervalued the group.

Visio Capital Management, which holds 7% of PPC, is the latest to come out against the bid. It worries that potential

competition issues will take up to 12 months to be flagged, let alone remedied. This came shortly after Value Capital Partners (VCP), the holder of about 5% of PPC stock, said it was against the offer because it hugely undervalued PPC.

VCP CEO Sam Sithole says that the principal reason the firm will not support the proposed transaction is that VCP is an "activist investment firm that looks at deep-value opportunities".

It is a self-described investor in minority positions in listed companies that becomes an engaged shareholder to drive maximum returns. That means it will only buy into companies where it believes the intrinsic value is significantly more than the share price.

VCP says the intrinsic value of PPC is at least R10 a share. "That is why we bought at the low share price levels prevailing in the last two to three months," Sithole says.

PPC shares have plummeted from a high of more than R50 a share before the global financial crisis to as low as R3.50 a share since August 2017. The stock traded up 5.23% at R6.64 in late trade on Tuesday.

VCP says among the reasons it believes PPC is worth at least R10 a share is its "marketleading presence" in SA. In addition, it has an "adequate" balance sheet after a R4bn rights issue in 2016 to reduce debt. The business is well capitalised and does not need a cash injection, Sithole says.

VCP also says PPC's capital expenditure programme is mostly complete. New plant is being commissioned in Zimbabwe, the Democratic Republic of Congo, Ethiopia and Rwanda. These operations will contribute nearly 50% of group profit within two or three years, VCP says.

Former PPC CEO Darryll Castle said in September 2016: "The success of the rights offer enables us to settle a large portion of our existing debt, placing us in a much stronger financial position. With liquidity concerns dealt with, we can focus all our efforts on the delivery of our expansion projects and business plans."

Castle has since left the group. A week before his exit in mid-2017, Tito Mboweni, former chairman of the board's social, ethics and transformation committee, also left. In early 2016, PPC non-executive director and chairman of the board Bheki Sibiyi was replaced by Peter Nelson. It is not entirely clear who on PPC's board, now and then, and among its executives supports what course of action in future.

But Sithole says PPC's "strong management team" has been there a long time and is demonstrating "the ability to navigate the route to market that is required in Africa". He says a "well-balanced board has demonstrated patience and skills in dealing with current distractions".

In making the offer, AfriSam-Fairfax was in part wanting to buy PPC at half the price "to solve the debt problem in AfriSam", Sithole says.

Source: Business Day