told the media. This might also mean bringing the subsidiaries into Anglo's centre by buying out minority shareholders – another frequently circulated idea in the group.

A tighter Anglo core certainly seems a Wanblad hallmark so far. Of $1bn in announced operational expenditure savings, half are already booked in head office cost cuts. These include Amplats, which may cut 3,700 jobs, and Kumba, where a further 490 jobs are vulnerable. A further $1.5bn in capex reductions is also on the cards.

Sweeping portfolio changes are tricky propositions, however. Today's albatross could be tomorrow's golden eagle, as commodity markets will attest.

"The goal is to simplify the portfolio and make it less complex. The choices must be made under the constraints of not ceding significant ebitda from the process," says Bernstein analyst Bob Brackett.

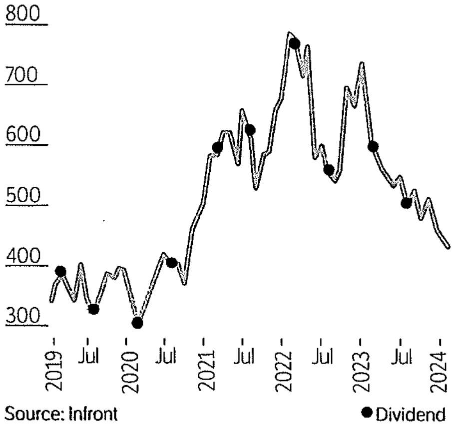
According to Brackett, a "careful eye" has to be kept on Anglo's target of net debt to ebitda in the event of macroeconomic conditions deteriorating.

What may certainly help Anglo is that the commodity markets may soon be at the company's back, while Wanblad's rebasing exercise – especially in terms of production guidance cuts that so worried the market in December amid a one-fifth decline in Anglo's share price – appears complete.

"We believe the risk/reward for Anglo is attractive after significant underperformance over the past two years," say analysts at Swiss bank UBS. There is "meaningful" upside for the copper price as well as for diamond and platinum group metal prices – a positive fluctuation in ever-volatile commodity prices that may, ironically, prompt Wanblad to exercise restraint. **x**

BUCKLING DOWN

Anglo American share price (R) – Monthly



Source: Infront • Dividend

RETAIL

Pick n Pay: Will the Ackermans buy in?

The company is trading at a loss and plans to list Boxer, but what the family will do in the rights issue is not clear

Adele Shevel

The founding Ackerman family may lose control of Pick n Pay if they do not reinvest sufficiently in the business, given sweeping changes announced this week that seem to signal a cash crunch.

Pick n Pay last week proposed a capital raise of up to R4bn for midyear and mooted a separate listing of specialist retail subsidiary Boxer in the second half of this year. The company wants to retain control of Boxer, which targets middle- to lower-income markets.

The supermarket group is battling to find its way in an increasingly competitive market. It has shed market share and is making a loss. Recently appointed CEO Sean Summers is taking decisive action. He has reshuffled the executive team and ditched the previous strategy that segmented the brand. All new Pick n Pay store developments have been suspended, though the expansion of Boxer and clothing stores will continue. Long-term lenders have agreed to waive all covenants on the syndicated loan and bilateral loan facilities as at February 25, amending them for end-August this year.

There is no official position from the Ackermans about what they are going to be doing in the rights issue.

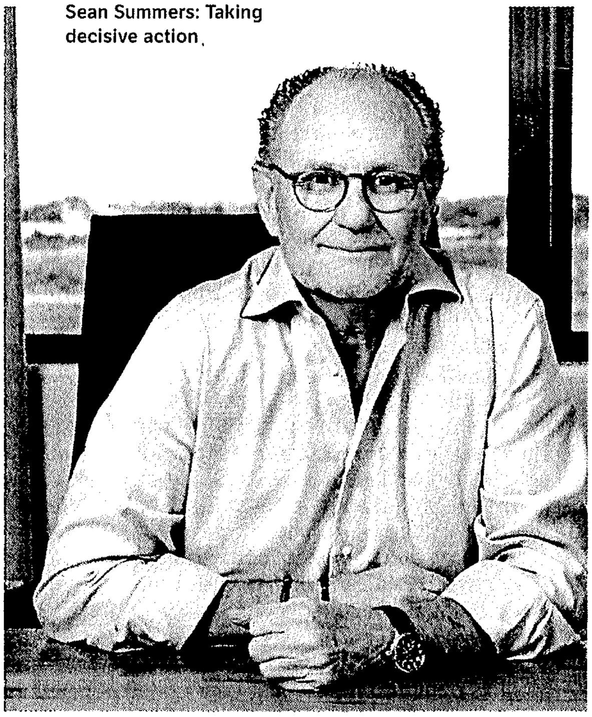
But the family will need to invest at least R1bn to retain control. They hold about 25% of the group and would retain control through a B share structure if they follow their rights. If they do not follow their rights, they will remain a major shareholder but will not have ultimate control.

Some believe it's important that the Ackermans reinvest in the business. Others say it's not, and does not affect the investment case. But there are questions about how the control would influence future capital allocation.

The family have been accused of taking out too many dividends over the years and depleting the business of sufficient capital to invest in it. Over the past four years the business has paid out R4bn in dividends, and the dividend policy has been more generous than that of market leader Shoprite. Pick n Pay paid out 70c in the rand, compared with Shoprite at 50c, according to *The Money Show*.

Pick n Pay's net debt is at R7.2bn, nearly double the R3.8bn at end-August, and it will report a loss for the full year to end-February.

Sean Summers: Taking decisive action



Boxer is growing, but the core supermarket business isn't. In the first six months of the financial year, Pick n Pay reported revenue of R34.6bn in South Africa while Boxer's was R17.4bn. Once Boxer is separated out, investors will see the full extent of the problems at the core Pick n Pay supermarket business.

All Weather Capital chief investment officer Shane Watkins says Pick n Pay has two problems, which are related; the one has to do with poor operational assets and the other with an underfunded balance sheet. "And the underfunded balance sheet makes it more difficult to invest in and correct the asset problem."

He says Summers is trying to correct those problems at the same time. "And that's like trying to repair the wing of an airplane while you're flying. It can be done, but it's quite difficult.

"I doubt the market would have supported a rights issue without the IPO of Boxer, and the R4bn or R5bn which [the company] can raise in a rights issue isn't quite sufficient to derisk the balance sheet."

Watkins says both actions are required. Regarding the rights issue and shareholder support for the capital raise, he says: "I think one of the preconditions might be that the family are asked to give up control. Because I think it's very evident that family control has been how the business got into this situation. From now on, I think, people want it to be run like a proper public company with the independent board of directors that act in the best interest of all shareholders."

Watkins remains hopeful, though. "Obviously there is an opportunity from here, and if anyone can do this task it's [Summers]. It's still fraught with danger, because problems that have been created over decades cannot be fixed in months."

Evan Walker, portfolio manager at 36One Asset Management, says Pick n Pay's debt has blown out more than expected. "I didn't think they would undertake a rights issue, I thought they would first list Boxer and use the proceeds to reduce debt. That would have been a little less dilutive, and they could have put some of the head office debt into the business — but the business needs money now. I don't think at this point they had an option."

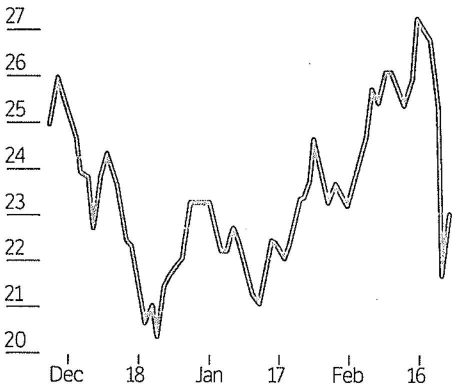
Walker is cautious. He says Boxer needs to be a fully functional standalone business, and this will take time. "We value Boxer at about R12bn and with about R3bn of debt we thought they would rather do that.

"I think what the rights issue does is fix their balance sheet, and it probably allows them two months to see how much they need to sell off Boxer. Once the capital raising is undertaken it gives them more options around Boxer."

Walker believes Boxer could attract a very favourable valuation.

OFF ITS TROLLEY

Pick n Pay share price (R) – daily



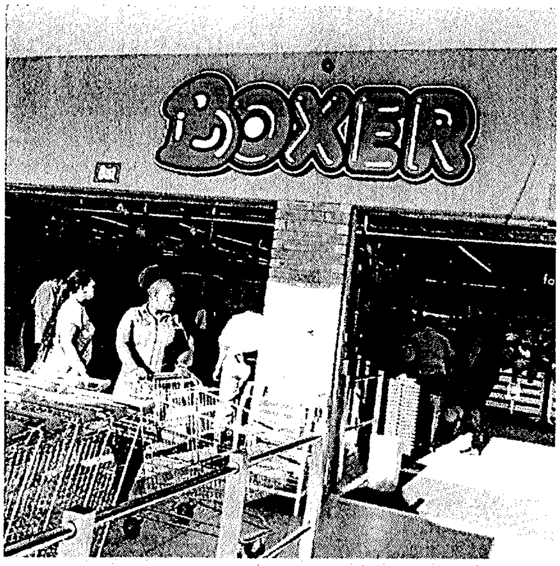
Source: Infront

The rights issue and Boxer listing proposals probably diverted attention from a rather dire trading statement that was released at the same time.

Sasfin Wealth senior equity analyst Alec Abraham says the trading statement was "an absolute shocker".

The trading update was for 47 weeks. Store sales were essentially flat, compared with the official retail segment's rise of 6.4%, suggesting that the chain continues to lose market share. Like-for-like is up only 0.7%, which suggests ongoing volume decline of about 7%, says Abraham. Boxer's nominal sales growth was 17.1%, but like-for-like sales growth rose 7.3%, which suggests volume decline of 1%. Clothing sales grew 17.5% vs the segment's increase of 9.1%, which suggests Pick n Pay is gaining market share.

Abraham says it's not important whether the family follow their rights. "What it would tell you is whether they think this business can be salvaged. If they're not going to put in more money into it they'll think it has gone pear-shaped." **x**



Boxing clever

A note by Citi says that after analysing the rights issue and the proposed Boxer listing, it considers that the share price reaction may have been overdone.

It says a standalone valuation of Boxer could be reflected in a higher Pick n Pay share price after any IPO, providing an opportunity for the share to rerate.

"While the ride over the next 12 months could be bumpy, we think it could provide value crystallisation for investors and Pick n Pay." It has retained its buy rating.

Primaresearch estimates that Boxer may have a valuation of R15.4bn, adding that a share placement of 25%-30% could raise R3.8bn-R4.6bn. Combined with the R4bn rights issue it could leave Pick n Pay largely debt free after the restructuring. Primaresearch maintains a buy recommendation with a target price of R33.

Investec Securities values Boxer at R23.6bn. It says the inherent value is being diluted by investors placing a negative valuation on the core business.

A note from SBG Securities downgrades its recommendation to hold as it awaits the strategy update from CEO Sean Summers into late May.

"We think investors favour a wait-and-see approach, especially considering the early announcement of the rights issue (accompanied by numerous unknowns) that results in severe spot volatility." x