Richard Cluver Predicts

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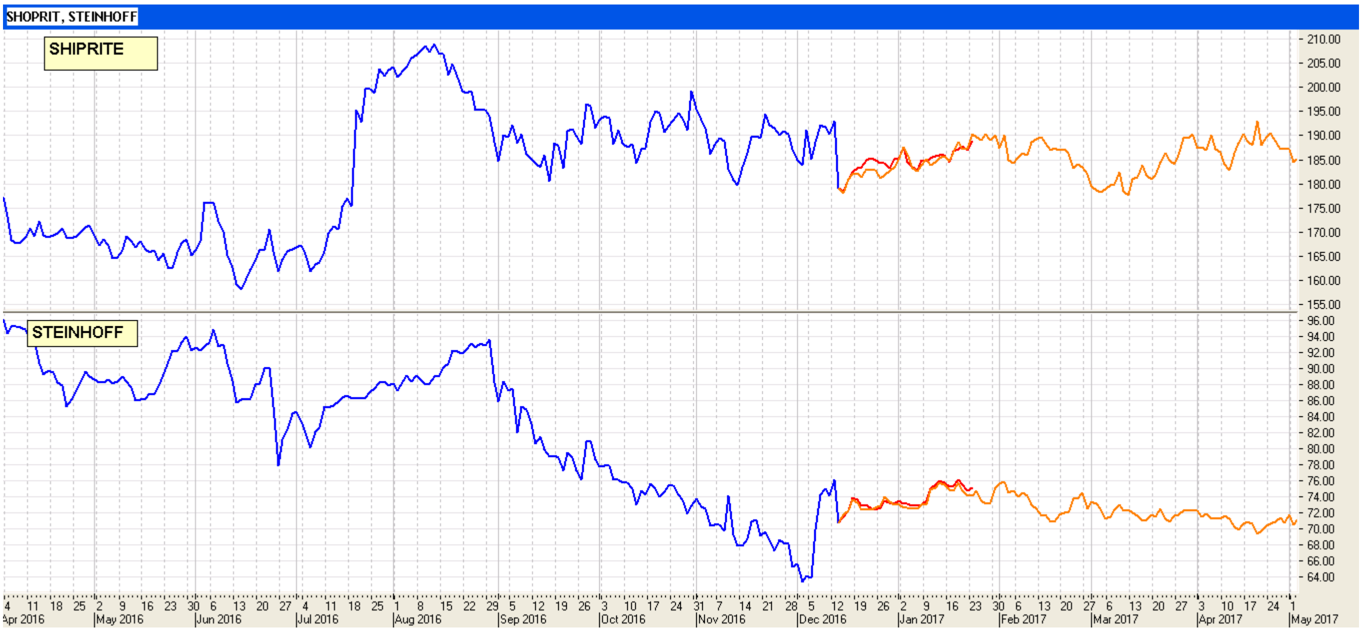
The much-predicted merger of multi-billionaire Christo Wiese's South African interests has clearly been greeted with dismay this week with investors scrambling to dump the shares of Shoprite Holdings and Steinhoff International Holdings as illustrated in my graphs below:



But it is important to put both declines into their proper perspective, noting that both shares had risen significantly in price in recent weeks and yesterday's declines merely takes them back to their price positions of mid-November and in both instances ShareFinder projects that they will immediately resume their upward trend at least until the end of January by which time the Financial Press should have fully digested the merits of the proposed merger.

Nevertheless, the sharp price declines yesterday, taken together with the recently-announced retirement of Shoprite CEO Whitey Basson, cannot be ignored for they suggest that investors had been expecting something better from the proposals. The immediate inference of these developments is that bedding down the merger which will create a retail megalith with an annual turnover of R200-billion and a staff complement of 186-000 people will inevitably take management eyes off the ball at a time when retailers in Southern Africa have been making heavy weather of a recessional economic environment.

That said, both constituent companies have both been very attractive Blue Chips which figure hugely in most long-term growth portfolios and so the disappointment, such as it might be, probably has mostly to do with the fact that Steinhoff will only be putting its Southern African assets into the pot rather that its entire asset base.

So Shoprite will become lumbered with the likes of Pep, Ackermans, Shoe City, Tekkie Town and the JD Group subsidiaries of Russells, Bradlows, Rochester, Incredible Connection, Hi Fi Corporation and Sleepmasters, most of which, and particularly so in the case of the furniture chains, have been struggling in recent years. All of which begs the question of who will benefit from the merger. Most analysts will probably argue that the event is more about Christo Wiese seeking to tidy up his local holdings into one neat bundle as a trade off that will allow him to ultimately achieve less exposure to Africa and more, via Steinhoff, to Europe; an exercise that will not necessarily benefit Shoprite shareholders in particular and

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which might be seen to ultimately benefit Steinhoff since in the short to medium-term there is better growth potential in Europe….particularly while Africa remains beset by the commodity slump!

The numbers, meanwhile, are difficult to add up until someone is able to extract the performance statistics of the Steinhoff African divisions from the total and compare those collectively with those of Shoprite: not a simple task in itself.

Here, however, it is worth noting that Shoprite has over the past five years enjoyed compound annual average dividend growth of 12.28 percent which has been significantly down on the ten-year figure of 23.1 percent. Steinhoff meanwhile has seen its global dividend figures grow at twice that rate, at 27.05 percent. But much, probably most of that performance has, however been coming from its European divisions which will not be included in the merger.

What to do in the interim? If you are a Shoprite shareholder, I would suggest that your outlook is less bright than it was before the proposed merger and so, if you had already been considering disposing of the shares, the next month might offer you the best opportunity. That said, there is too little detail to make a really informed decision at this time.

For existing Steinhoff shareholders, I would similarly argue that you hold onto your shares for now. On balance the latter could arguably benefit from being shot of their African encumbrances.

The next month:

New York's SP500: I correctly predicted a continuation of the mrket up-trend. Now, however, I see a decline until Christmas eve.

London's Footsie: I correctly predicted a brief recovery followed by declines. And I see the decline continuing until December 20 followed by a recovery until the end of the year with declines again from the 28th.

JSE Industrial Index: I wrongly saw the decline continuing. Now I see the recovery continuing until the 20th after which a long decline seems probable.

Top 40 Index: I correctly predicted a volatile recovery. Now I see declines until early January.

The ShareFinder Blue Chip Index: I correctly a predicted a modest recovery which I see continuing until the 19th followed by a sideways to slightly weakening phase well into January..

Golds: I correctly predicted the decline would extend well into December and I see no reason to change that view.

The Rand: I correctly predicted the beginning of a weaker phase which I now see lasing until the 29th after which a recovery is likely.

The Predicts accuracy rate on a running average basis over the past 609 weeks has been 83.98%. For the past 12 months it has been 89.64%.

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