

COMPANY COMMENT

PSG catches rising tide with desalination deal

PSG Group's share price was motoring up on Monday after the news that it had taken a punt on a small Strand-based water desalination company, GrahamTek.

While it's easy to dismiss the deal as opportunistic in view of Cape Town's water crisis, it would be out of character for PSG to bet on a business where prospects hinged only on winning desalination tenders from the City of Cape Town.

Already there are whispers that GrahamTek – which will be incorporated into PSG Alpha power management subsidiary Energy Partners – is close to clinching another major off-shore desalination contract.

While the GrahamTek deal may not move the needle at PSG immediately, the development does signal a renewed energy in the deal-making department.

Recent moving and shaking has seen PSG's fast-growing private education subsidiary Curro unbundle and separately list its tertiary arm, Stadio.

Stadio has clinched a successful rights offer with investor enthusiasm – as was the case with Curro – clearly evident.

More recently, PSG Alpha bought a major stake in retirement lifestyle developer Evergreen. The acquisition of GrahamTek raises questions on whether PSG will hasten listing plans for Energy Partners.

The group has on several occasions confirmed longer-term listing plans for Energy Partners. But if GrahamTek wins a desalination tender, there may be demanding capital requirements to set up the modular plants as quickly as possible.

PSG's balance sheet can accommodate project funding, but taking Energy Partners to market sooner rather than later may be a possibility.

In what should be seen as a direct assault on Woolworths's and Pick n Pay's traditional wealthy target market, Shoprite is set to open a Checkers outlet in the Cape Town suburb of Constantia in 2019.

At Monday's annual general meeting, one shareholder asked



if the 30-year lease was long enough. "From my point of view," said 76-year-old chairman Christo Wiese, "it's long enough." He did go on to clarify whether it was the best deal the company could do.

Wiese has been such a presence in the South African business world. As one fund manager said after the meeting and another stellar Wiese performance, many companies would be tempted to adopt a defensive strategy in the current sociopolitical and economic environment, but Shoprite keeps forging ahead, even without Whitey Basson.

In the first quarter of financial 2018, it opened 20 new supermarkets and six furniture stores. And just to prove political stability isn't a prerequisite for investment, Bloomberg reports that Shoprite is in talks to open its first stores in Kenya. It is hoping to take over outlets vacated by struggling Kenyan retailer Nakumatt Holdings.

Not that investors are all that impressed. After surging to a record R225 ahead of the critical shareholder meeting to vote on the controversial repurchase of Basson's shares, the share price is back at R202; not much advance on a year ago. Almost inevitably, Shoprite's remuneration policy scored an uncomfortably high 30% "no" vote.

Shareholders were probably not impressed by the R50m guaranteed pay Basson received for his 12-month notice period to end-September. One investor said: "How can they justify that sort of money when he wasn't actively involved?"