Mvela takeover could be good news for Avusa

By Trevor Neethling

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The Mvelaphanda Group's bid for control of Avusa Media might be just the shot in the arm the stagnating media company needs to reinvigorate its business following a dismal 2011. Last year it had to contend with executive management instability and suffered major cost knocks, culminating in a torrid financial performance that wreaked havoc on shareholder value.

A takeover bid was just a matter of time after Mvela, which owns a 28% stake in Avusa through its investment vehicle Richtrau, backed a similar but failed bid through private equity firm Capitau to take control of Avusa.

Should this Richtrau cash and share offer, initiated by Mvela's largest shareholder, private equity firm Blackstar, be finalised as expected by September, the rest of this year will offer Avusa a new vision from a new leadership team that on the surface seems to be saying all the right things.

"I'd like to see Avusa as the Time Warner of Africa," Blackstar CEO and Mvela's acting CEO Andrew Bonamour tells *Business Day*.

"The company owns and produces a lot of premium content and we would like to use that to its full potential. We would also like to enter the TV market."

Sagging fortunes

His sentiments are somewhat grand for a company that has underperformed in the last few years, notwithstanding tougher economic conditions. JSE data offers an idea of just how Avusa's fortunes have sagged. Over the past year its market capitalisation value has steadily declined from a peak of about R2,7bn to less than R2,5bn.

Over the same period fellow small-cap media company Kagiso has seen its market capitalisation value steadily increase and leapfrog Avusa to R2,6bn from about R2,4bn.

In addition, Avusa shareholders were greeted with the disappointing news last year that earnings per share for the six months ended September were down more than 90%.

The company blamed poor trading in its entertainment and books business units, and the costs arising from the expression of interest received from Capitau.

The results were also dragged down by R25m in charges resulting from a separation agreement with its former group CEO, Prakash Desai.

It incurred debt from the 2010 acquisition of printing company Universal Hirt & Carter (UHC) for nearly R1bn, which moved the company from an interest earner to an interest payer. The acquisition, however, has been one of the better business deals for Avusa, with UHC largely propping up losses suffered by other business units such as Nu Metro and Exclusive Books.

Fresh insights

It also brought onto the Avusa board UHC head Colin Cary, who has been given the task, by the Mvela management, of bringing fresh insights and leadership to take the company forward.

Cary's appointment also brings with it a sense of continuity and stability, following the boardroom theatrics that unfolded last year. Last September, Desai parted ways after a high-profile dispute with the board, and particularly Cary, over Avusa board positions in the wake of the UHC acquisition. This was preceded by the resignation of chairman Dumisa Ntsebeza and two independent non-executive directors.

At the time, Karl Leinberger, chief investment officer of Coronation Fund Managers, a major shareholder in Avusa, spoke of the "poor performance of Avusa, discontent at how executives at UHC had been sidelined since Avusa bought it for R925m last November, and a lack of proper leadership".

In addition, all the negativity is not lost on shareholders, with 65% - including Richtrau, UHC, Coronation and Kagiso Asset Managers - already backing the Richtrau takeover.

If they succeed they will inherit a company already showing signs of a turnaround. The Avusa board, led by acting CEO Mike Robertson, has embarked on a turnaround plan that will show a much-improved second half set of results later this month, as indicated in a trading update earlier this year.

Focus on cutting costs

It has focused on cutting costs at its loss-making entertainment division, such as closing down two cinemas in Pretoria and Johannesburg (Brightwater Commons) and has made small-scale retrenchments across various units.

Bonamour believes that such initiatives will deliver short-term gains that will feed into long-term profitability for Avusa.

Kevin Mattison, a senior analyst at Avior Research, says the effects of the deal will not bring wholesale change in operations in the short term. "It will simplify the board and appoint a permanent CEO and essentially introduce debt. Apart from that, shareholders will be in essentially the same position as they were before," says Mattisson.

He says a turnaround would depend on just how much the new management could optimise the nonperforming assets.

"We do also expect better economic conditions for its key titles and that could bode well going forward," he says.

Therefore, with a new management team in place, a new, yet-to-be-announced company name on the cards and a greater urgency to improve efficiency and shareholder value, investors might be forgiven for feeling a little bullish right now.

Source: *Business Day* via I-Net Bridge