# Investors have to be wary of Pick n Pay dividend trap

By Shaun Harris

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In recent interim results, Pick n Pay declared a healthy dividend payment. Shareholders should be happy, and probably are. But which shareholders?

Gareth Ackerman.
Photographer: Hetty Zantman

Image source: Financial Mail

There are two sets of shareholders in the company, divided by the unpopular pyramid structure through which the Ackerman family maintains control. The family has long faced criticism of this artificial control structure and sometimes tries to justify it.

Many investment analysts list reasons why the pyramid must go. But it seems that this is not going to happen soon, if at all.

Criticism centres on Pick n Pay Holdings (Pikwik), which is also listed on the JSE. It is the classic dividend trap. Internal policy dictates that 75% of earnings from the operating company, Pick n Pay Stores, is paid in dividends to Pikwik, says veteran independent analyst Syd Vianello. And the controlling shareholder of Pikwik, holding just over 50%, is Ackerman Investment Holdings, effectively the Ackerman family trust.

It is through control of Pikwik that the family has control of Pick n Pay Stores and ensures that just over half the dividends paid by Pick n Pay are channelled to Ackerman Investment Holdings. Vianello calls this an "unhealthy dividend policy" as it sometimes means Pick n Pay does not have sufficient capital, after the dividend payments, to fund normal growth. The result is that Pick n Pay mostly underperforms when compared to its peers, prejudicing shareholders in the operating company.

Adding his voice to criticism of the pyramid is Chris Logan, a director and shareholder activist at Opportune Investments. He says the "real issue is the external control arrangements" of the artificial structure. "This leads to complacency and then the possibility of abuse," he says.

Pick n Pay chairman Gareth Ackerman, son of founder Raymond (who remains chairman of Pikwik) could not be contacted in person last week. But he has voiced the family view on the pyramid before. Writing in Business Day earlier this year, he said: "It is family control that has enabled us to take the long view on necessary investment."

That seemed true in the latest interim results. Pick n Pay CE Richard Brasher said money was spent on new stores and on refurbishing existing stores, with stores that were no longer economically viable being closed down. The interim results to August were solid.

But another question from both Vianello and Logan is just how independent Brasher can be. Ultimately, they say, he is working for one set of shareholders - the Ackerman family.

Gareth Ackerman did respond to Financial Mail questions after writing in Business Day and had this to say: "Nothing is ever cast in stone. At the moment the structure suits us. At some point it may not and we may look at other ways of structuring it, but for the moment, the family has no plans to sell its shares in Pick n Pay."

Pick n Pay, along with a few other companies, seized an opportunity in decades past, when the JSE allowed the formation of pyramids. Pikwik is quite direct about its intended role: "The company ... was formed with the sole purpose of holding a controlling interest in Pick n Pay Stores."

These structures are banned on most stock exchanges around the world.

Currently Pick n Pay, halfway through a turnaround strategy, is doing well. Both groups of shareholders will probably remain satisfied. But should Pick n Pay slip back into its former state of underperformance, it will awaken new cries for the pyramid to go.

While Pick n Pay takes the long view, food retailers generally are finding little growth in the SA market. These supermarket chains are the ultimate defensive stocks (people have to eat).

But hard-pressed SA consumers are being far more selective in their food purchases, often cutting out the more luxury-type items in which the food retailers tend to have a bigger mark-up and profit margin. And while consumers bleed, so do the food retailers.

Faced with a lacklustre market at home, many are expanding further into Africa and, more recently, into Europe. This is one of the reasons SA retailers are casting their eyes abroad.

In Africa, Shoprite is the dominant food retailer. Despite paying its school fees in some countries, it is pushing ahead with expansion into Africa, spending about R1,1bn rolling out new stores in Angola, Nigeria and Zambia.

But the real growth story in Africa is Choppies, the Botswana-based food retailer which recently listed on the JSE. Part of the reason for its JSE listing was to raise capital for further expansion in Africa.

By the end of next year Choppies plans to open more than 200 stores, including a push into Kenya and Tanzania. Risks may be high in these countries, as Shoprite and Woolworths found out, but there is probably no company better placed to expand further into Africa with the knowledge it has already acquired of the regions.

Which share should investors have in their shopping trolley? It's a tough choice as the different food retailers have different strengths.

Both Spar and Woolworths sailed through the tough climate but were carried by certain parts of the consumer market. The shares have run well over the past year but are looking expensive now.

Pick n Pay has broader appeal and the latest financial results show it is making a solid recovery. Investors, however, have to be wary of the Pikwik dividend trap in its pyramid structure. That leaves Shoprite, where sales took a first-quarter knock. "The core customer base of the flagship Shoprite chain, in particular, remained under pressure from mining job cuts, rising electricity costs, labour instability and lack of job creation," says CE Whitey Basson.

Yet he has positioned Shoprite stores well. They will still catch the important bottom end of the market but are increasingly attracting the middle and even higher ends of the market as well. It may be limping now, but this is the share investors want.

If there's space in the trolley for two shares, Choppies would be the next choice.

**Source:** Financial Mail