

Why Rupert is "sick of the King code"

The Remgro AGM last week, chaired by chairman, Johann Rupert, was again well worth the cost of the trek out to the Erinvale conference centre in Somerset West.



Source: [Buzz South Africa](#)

This year Rupert, whose family has controlled Remgro (and its predecessor, Rembrandt) for almost seven decades, offered some refreshingly frank views on corporate governance, share repurchases and capital raising, as well as regrets and reservations about the liquor sector. He also had a downbeat assessment of global free trade.

At the start of the meeting, Rupert was asked by a shareholder for his views on recommendations that listed companies regularly rotate audit firms.

King code nonsense

Rupert said he is "sick of the King code nonsense", arguing that changing audit firms would cause a lot of disruption at companies. "No sooner has an auditor started to understand your business than you have to get rid of him."

Rupert said he prefers to rotate audit partners, which Remgro - audited by PwC - does every five years. "Business is complex enough - [it's not necessary] to add further complexities. We've had really good service from PwC. And I'm not leaving [director] Charl du Toit, because he is the best. Only the bigger [auditing] firms can provide such expertise."

Buying back shares

Rupert chided shareholders for abstaining from voting at AGMs, before explaining that he abstained from voting on a special resolution granting directors the authority to buy back Remgro's shares. "I won't vote on the share repurchase resolution because people suspect me of increasing my shareholding."

Rupert suggested Remgro would approach share buy-back opportunities with circumspection.

He argued that share buy backs are normally triggered when a company has a ton of cash at the top of the cycle, citing Anglo American's costly share buy backs in 2007 as a prime example. "We treat shares as a scarce commodity."

However, shareholder activist Chris Logan pointed out that the company had recently undertaken a sizeable rights issue to reinforce a balance sheet that reflected a meaningful debt position for the first time in at least three decades. He asked whether it was the first time Remgro - which has a reputation for strong cash flows from its underlying investments - had undertaken a capital raising.

Rupert said the old Rembrandt Group had once issued 15-year debentures. "The breakthrough for Rembrandt came in 1978. It was not in my time, but I'm sure it had [a capital raising] at some time or another."

Explaining the rationale for the recent rights issue - largely believed to have been intended to shore up Remgro's balance sheet ahead of acquiring beer giant Anheuser-Busch InBev's 28% stake in liquor group Distell - Rupert said the company's investment bankers had recommended an accelerated book build.

"I disagreed. A book build is cheaper, but a rights offer is a fairer way of treating all shareholders the same."

Rupert said he had instigated the rights issue. "I told [Remgro CEO] Jannie [Durand] they would run out of cash for a number of opportunities."

Distell deal

Rupert cautioned Remgro shareholders against assuming the acquisition of AB InBev's stake in Distell is a done deal. "Yes, it has to sell shares. But there are many people who could be interested [in the Distell shareholding]. We'll see what the bids and the prices are, and at that stage we will determine, as a board, whether we want to exercise our preemptive right on the Distell shares."

Rupert bemoaned the decision by Remgro, which holds about 34% of Distell, to exit the beer brewing business in the late 1970s.

"The dumbest deal my dad [Anton Rupert] did in his life was to get out of breweries. They were breaking through. He called me and said it had to be done because the beer [with SAB] was killing the wine farmers. When my dad had had no money, it was the wine farmers who backed him and bought his shares. He said: 'I'm killing my own shareholders.'"

Rembrandt's Intercontinental Breweries - which incorporated Louis Luyt's Luyt Breweries and boasted brands like Kronenbrau, Sportsman Lager and Colt 45 - was sold to SA Breweries in 1979.

Luxury brands

Rupert also dismissed suggestions that Remgro could push some of Distell's "upmarket" brands in wine and brandy towards Rupert-controlled luxury brands conglomerate Richemont (emulating LVMH, which owns Moët & Chandon and Hennessy).

"There is no chance at all. Investors want to invest in luxury brands, and want pure access. It will never happen."

Wine is for fun

Logan asked whether Remgro, as the anchor shareholder at Distell, could help open up markets in China, noting Australian Treasury Wines enjoys duty-free access to Chinese markets.

Rupert argued wine is not a business - something that might surprise Distell, which owns the Nederburg, Durbanville Hills, Graca, Chateau Libertas and Zonnebloem wine brands. "Wine is for fun. It's not a business. The real fun in wine starts when you stop losing money. Anyone on the Distell board will tell you that Amarula [cream liqueur] is a business and Klipdrift [brandy] is a brand."

Rupert maintained that securing a duty-free trade pact for wine into Chinese markets is in the domain of the minister of trade & industry.

Poultry margins pecked to bits

He said recent developments in the poultry sector, where Remgro is invested in Rainbow Chicken via RCL Foods, shows what degree of influence the company enjoys on key trade matters. "Here you have redneck hillbillies from Arkansas and Georgia wrecking SA dreams [in the poultry sector]."

Recent results from major local poultry players show how operating margins have been pecked to bits by increased chicken imports from the US under the African Growth & Opportunity Act.

Free trade is a swear word

Rupert said he backs freer trade worldwide, but is scared that economic hardship in Europe and the US is leading towards more isolation. "I don't think Donald Trump won the US election on free trade . If I look at Europe, 'free trade' is a swear word. If Trump should act against China - and hopefully he has lied about that - the repercussions could be disastrous."

Source: I-Net Bridge

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